

# Economic trends

The dismal growth in the global economy has continued this autumn. The Euro zone has once again entered a period of declining levels of production. The GDP in many European countries never regained the same level as before the financial crisis during the period of recovery in 2010 and 2011 before production levels once again began to decline. With years of large continuous budget deficits, national debt as a proportion of GDP therefore continues to rise, even though some countries have managed to reduce their deficits. The deficit reduction has occurred through the implementation of contractionary fiscal policies, which have contributed to the poor growth in GDP. Steps taken by the European Central Bank have led to reduced interest rates on public debt and led to a more manageable burden of debt for these countries. A significant level of emigration may now be witnessed from several European countries to other countries both within and outside of Europe. This could permanently weaken the production potential of heavily-indebted countries as the emigrants are often younger persons. If many of the younger persons in the labour force were to leave on a permanent basis, it is difficult to see how the economic growth in these countries will be high enough to significantly reduce the debt ratio in the future. Even though the crisis in Europe has stabilised somewhat recently, it is unlikely to take long before a recurrence of unrest in countries with particularly high levels of national debt will take place.

In the USA, economic growth is moderate. Even though there are some bright spots in the growth outlook, such as in the housing market, attention is being focused on how political opponents can reach agreement on a budget compromise for next year. An increasing level of national debt is also creating problems in the USA. With moderate tax revenues as a proportion of GDP, the country will have to use more of its public revenue to service its debt compared to the majority of European countries.

We assume that economic growth for Norway's traditional trading partners will remain low for several years. In 2014, we believe that growth will pick up somewhat although we do not expect a cyclical upturn for Norway's trading partners to occur before 2015.

The cyclical upturn starting in 2011 has continued in Norway throughout 2012. Unemployment has fallen to 3 per cent of the labour force and the high level of immigration continues. The significant growth in the supply of labour is likely to contribute to keeping inflation at a low level. The nominal wage growth continues at around the same pace as in previous years. A strong growth in pensions will also ensure that household's spending power will rise considerably. Low interest rates will also lead to continued strong growth in house prices and housing investment. This will lead to an increase in production in both the building and construction sectors, as well as market-based services. Public service production is now contributing to a moderation of economic growth. The petroleum sector, however, is showing strong signs of growth this year and next year. Low economic growth among our trading partners tells us that we cannot depend on the Norwegian economy being boosted through increased exports in the coming years. We must rather hope that an even more serious global setback will not take place.

The petroleum sector and the household sector are expected to continue to make the most significant contribution to growth. A continuation of current fiscal policy in conjunction with low interest rates means that the growth pattern over the last couple of years will continue both next year and into 2014. A stronger krone means that inflation will be significantly lower than the inflation target for a further two years. With strong growth in household income and a high population growth, particularly in central regions, demand for housing will remain at a high level. Low interest rates will strengthen this demand. The growth in house construction will eventually increase new housing stock to the extent that the growth in second-hand house prices will diminish. Even if interest levels were to normalise in two to three years, household interest costs will generally not be so high that we anticipate a strong setback in the housing market.

# Cyclical trends in Norway

The cyclical upturn in the Norwegian economy, which started at the turn of the year 2010/2011, continued in the third quarter of 2012. New revised figures from quarterly national accounts indicate, however, that the rate of growth during the current year is declining. For 2012 as a whole, it would appear that growth in GDP in Mainland Norway will be 3.4 percent. This is clearly higher than the trend growth of just over 2.5 percent. Total GDP is likely to increase by just over 3 per cent from 2011 to 2012. While the gross product in public

administration would appear to have increased by only 1.5 per cent this year, growth in mainland industries is significantly higher. In market-orientated services, growth is approximately in line with developments in the mainland economy as a whole. As an annual average, we estimate that the manufacturing sector, as in the two preceding years, will experience moderate growth, in line with public administration, while there will be a significant increase in the gross product of other goods-producing industries. This is due to a high

Table 1. **Macroeconomic indicators 2010-2012. Growth from previous period unless otherwise noted. Per cent**

	2010*	2011*	Seasonally adjusted			
			11:4	12:1	12:2	12:3
<b>Demand and output</b>						
Consumption in households etc.	3.8	2.5	1.0	0.9	0.7	0.8
General government consumption	1.3	1.8	0.0	-0.1	1.2	0.2
Gross fixed investment	-8.0	7.6	1.7	1.3	1.0	0.9
Mainland Norway	-4.5	8.5	1.9	-0.1	0.2	2.2
Extraction and transport via pipelines	-9.5	14.1	-0.4	3.6	5.1	-1.8
Final domestic demand from Mainland Norway <sup>1</sup>	1.5	3.3	0.8	0.4	0.7	0.9
Exports	0.4	-1.8	-3.3	3.8	0.5	-3.1
Crude oil and natural gas	-6.9	-6.2	-8.0	7.1	1.2	-5.8
Traditional goods	3.4	0.0	-3.1	3.5	-0.5	0.5
Imports	9.0	3.8	5.4	-1.3	1.4	1.1
Traditional goods	9.1	3.6	2.8	0.5	-1.0	1.9
Gross domestic product	0.5	1.2	-0.1	1.4	1.0	-0.8
Mainland Norway	1.7	2.5	0.5	0.9	0.8	0.7
<b>Labour market</b>						
Man-hours worked	0.1	1.8	0.5	0.6	0.4	0.5
Employed persons	-0.5	1.3	0.2	0.8	0.7	0.5
Labour force <sup>2</sup>	0.5	1.1	0.5	0.6	0.3	0.0
Unemployment rate, level <sup>2</sup>	3.6	3.3	3.4	3.2	3.0	3.1
<b>Prices and wages</b>						
Annual earnings	3.7	4.2	..	..	..	..
Consumer price index (CPI) <sup>3</sup>	2.5	1.2	0.9	0.8	0.4	0.4
CPI adjusted for tax changes and excluding energy products (CPI-ATE) <sup>3</sup>	1.4	0.9	1.1	1.4	1.1	1.2
Export prices, traditional goods	4.5	5.7	-0.4	-1.6	-1.4	-1.1
Import prices, traditional goods	0.1	4.2	0.7	-0.1	-0.3	0.7
<b>Balance of payment</b>						
Current balance, bill. NOK	303.2	374.0	105.8	133.6	85.9	96.4
<b>Memorandum items (unadjusted level)</b>						
Money market rate (3 month NIBOR)	2.5	2.9	3.1	2.6	2.3	2.1
Lending rate, credit loans <sup>4</sup>	3.4	3.6	3.9	4.0	3.9	3.8
Crude oil price NOK <sup>5</sup>	484	621	627	684	641	646
Importweighted krone exchange rate, 44 countries, 1995=100	90.3	88.1	87.9	87.6	87.6	87.2
NOK per euro	8.01	7.79	7.76	7.59	7.56	7.39

<sup>1</sup> Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.

<sup>2</sup> According to Statistics Norway's labour force survey (LFS).

<sup>3</sup> Percentage change from the same period the previous year.

<sup>4</sup> Period averages.

<sup>5</sup> Average spot price, Brent Blend.

Source: Statistics Norway and Norges Bank.

level of growth in the building and construction sectors, energy production, and the aquaculture industry.

The strong fiscal impulses from 2009 did not continue in the subsequent years. Even though production in public administration has risen to a high level, growth over the past two years has been lower than GDP for Mainland Norway. It is market-orientated services and other goods-producing industries that have been at the forefront of the upturn. Despite poor global growth, manufacturing sector growth has remained reasonably stable. This is largely attributable to the fact that parts of the manufacturing sector have received clear growth impulses from the petroleum sector. The continued expansionary monetary policy comprising low interest rates has stimulated both household consumption and the housing market. These are important factors that explain the production growth in market-orientated services and in the building and construction sectors, and therefore also the cyclical upturn in the Norwegian economy. Figures for the third quarter of this year show a marked decline in production in other goods-producing industries, but we believe this decline to be transitory. The manufacturing sector, however, shows a marked recovery although we do not believe this signals changes in the growth pattern we have been observing for some time.

Growth in gross product by sector is consistent with differences in contributions to growth from the various demand components. Traditional exports have seen minimal growth and this also applies to business investment. However, investments in the petroleum sector and housing have increased significantly. Public administration consumption has risen very little over the last two years while household consumption has risen considerably, particularly in the last four quarters. Compared to a more normal economic cycle for the Norwegian economy, it is the growth in traditional exports and business investment in particular over the last two years that is poorer than usual. This is consistent with the low growth in the global economy. The poor growth in the global economy and among our trading partners contrast sharply with the growth in the Norwegian economy. Thus, the cyclical pattern is rather untypical when one studies the details on both the production and the demand side of the Norwegian economy.

Another unusual feature is the poor growth in labour productivity during the cyclical upturn. Normally, growth in productivity is counter-cyclical insofar as it increases sharply towards the end of a decline and at the beginning of an upturn and then diminishes towards the end of an upturn and at the beginning of a cyclical downturn. This pattern is clearly manifest in the economic cycle through the 2000s up to 2009. Usually, the growth in productivity should have picked up after this. This occurred in 2010, although growth in 2011 and 2012 was surprisingly poor, especially as it is in market-orientated enterprises that growth has

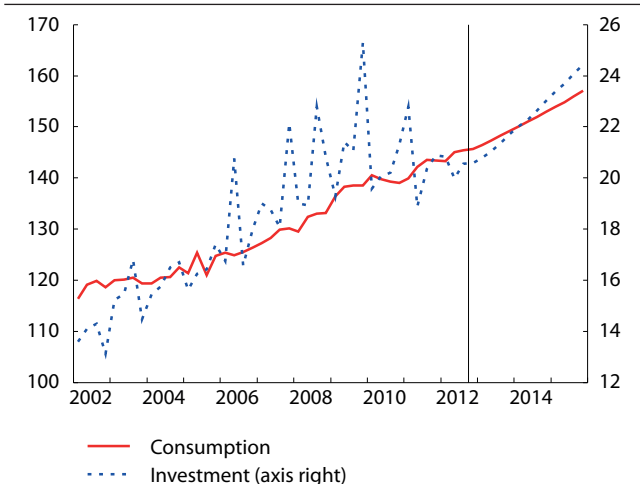
manifested. One of the reasons for this could be that investment growth across major parts of trade and industry has failed to manifest so that higher capital intensity does not provide the normal contribution to increased labour productivity.

A counterpart to the poor growth in productivity is the high level of employment growth. In 2012, this will be just over 2 percent. Even though the labour force has also increased significantly, unemployment levels have still fallen by half a percentage point from their peak in 2010, and are down towards 3 percent. When we consider that unemployment levels among immigrants are higher than average and that they constitute an increasingly higher proportion of the labour force, the decline in total unemployment levels means that the labour market is probably somewhat more tighter than suggested by the labour force survey (LFS).

Consumer price growth remains low and shows no clear signs of changing significantly. In the current year, the total CPI growth will be clearly less than 1 per cent as a consequence of a reduction in electricity prices. With adjustments made due to changes in taxation and energy prices (CPI-ATE), inflation remained at around 1 per cent through many quarters even though the cyclical upturn has lasted for almost two years and LFS unemployment is reduced to 3 percent. The reason for the low inflation level may partly be attributed to the strengthening of the krone that has occurred over several years and is contributing to low imported inflation, and also because world market prices are rising only slightly as a result of poor growth in the global economy. Low and declining interest levels have also contributed over time to a reduction in financial costs that impact the growth of property rental rates and trading margins. Changes in technology and competitive conditions have contributed to lower inflation in many transport sector services. This is countered by high domestic cost increases and, not least, the rise in wage costs per produced unit.

Our assessment of cyclical trends in Norway in the coming years has remained virtually unchanged compared to previous economic reports. We believe that the crisis-ridden economic trends experienced by many of our most important trading partners will continue to affect the economic outlook for several years to come. It would appear that economic growth in 2013 will be very low in many countries. This means that the upturn in the Norwegian economy will not receive any boost from abroad next year, either. On the other hand, this would suggest that we will receive minor inflationary impulses from abroad and that base rates in both the USA and Europe will remain low. We assume that growth will pick up somewhat after a couple of years, although we believe that, collectively, our trading partners will not experience any cyclical upturn before 2015. This means that export-orientated trade and industry in Norway will have to fight for market shares in stagnating markets. As this part of Norwegian trade

Figure 1. **General government. Seasonally adjusted at constant 2010 prices. NOK billion. Quarter**



Source: Statistics Norway.

and industry will also have to compete for input factors in a growing economy, it may rightfully be perceived as being 'squeezed from both sides'.

Thus, if the upturn in the Norwegian economy is to continue, domestic demand must be the driving force for a further couple of years. The economic policy in Norway will not provide any strong impulses for further growth beyond low interest levels continuing to impact positively on domestic demand, even though interest levels have remained low for a while. The fiscal policy will provide moderate growth impulses and contribute mainly as a consequence of the strong growth in pension benefits, which will increase household demand. The petroleum sector has made a significant contribution to the economic upturn over the last two years. We still regard contributions to growth from increasing investment in this sector to be substantial enough to sustain the upturn in the Norwegian economy throughout 2013. Low interest levels coupled to high income and population growth will contribute to increased investment in housing and a high level of growth in household consumption. In summary, we predict that contributions to growth on the demand side, which we have been able to observe over many quarters, will continue throughout the whole prognosis period.

However, in 2015, we believe that contributions to growth will be somewhat more balanced. This is based on the assumption that there will be slightly higher increasing growth in the global economy leading to a gradual normalisation of fiscal policy and a slight rise in interest rates both at home and abroad. Growth in household demand will then diminish somewhat, while exports will contribute slightly more to the overall growth.

Production trends in the time ahead will reflect the growth pattern in household demand. The majority of export-orientated businesses will not experience significant growth in the near future. Within the

manufacturing sector, the engineering industry will experience the most substantial growth in the time ahead and a more general upturn will not occur before the end of the prognosis period. There is considerable growth potential in the building and construction sectors but these will eventually encounter increasing competition from nearby countries. The strongest growth in the power supply sector is now behind us. Market-orientated services will therefore be a driving force to the continuing upturn by virtue of their size in the Norwegian economy and also because there is household demand for these services. Also, the investment that is expected to increase most significantly in the time ahead will provide impetus to service industries. The gross product of public administration, however, will increase at a level slightly below the trend growth within the mainland economy, given our assumptions on fiscal policy. Overall, this suggests that growth in the mainland economy will be slightly above 3 per cent annually over the next few years and will possibly reach its lowest level next year. With minor changes in total petroleum extraction we estimate that the total average GDP growth will be slightly below 3 percent.

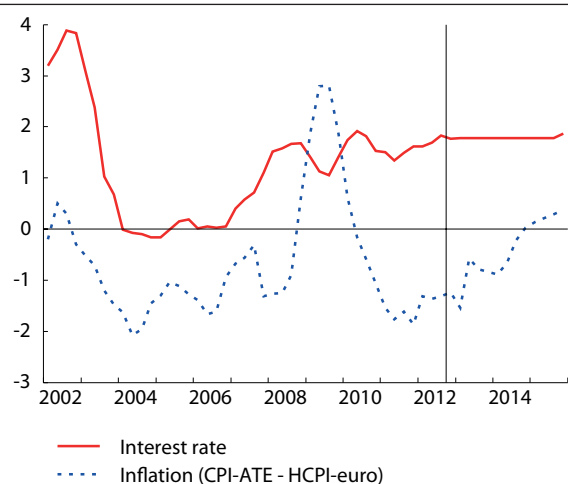
The future growth pattern suggests a relatively labour-intensive growth so that employment growth will remain quite high. Thus, pressure on the labour market continues to remain high, particularly for certain types of labour. However, this pressure will be diminished by the high level of immigration, not least from neighbouring countries experiencing unemployment levels substantially higher than the Norwegian level. We assume that the labour force will rise at approximately the same rate as employment and will not significantly alter the unemployment level. We believe that wage growth in the time ahead will remain relatively high, both nominally and in real terms. In particular, a global upturn towards the end of the projection period may potentially contribute to increased profitability in traditional exports industries, which may boost wage growth. At the same time, inflation will increase somewhat and real wage growth is therefore estimated at 2-3 per cent per annum in the coming years. Taking into account the high level of growth in employment, this will result in high household income growth and, in conjunction with a substantial growth in pension benefits, we estimate that the household savings rate will remain high. This will be necessary in order to finance continued strong growth in the housing market in the coming years.

### **Increased pension benefits provide growth impulses from the fiscal policy**

Public administration consumption appears to have risen by barely 2 per cent from 2011 to 2012. Defence consumption has risen slightly more than civil consumption in state and local government administration. Gross investment in public administration is likely to be somewhat lower in 2012 than in the previous year, although it is estimated that investment in civil administration will increase by up to 4 per cent this



Figure 2. **Interest rate and inflation differential between NOK and the euro. Percentage points**



Source: Norges Bank and Statistics Norway.

year. This is quite close to our previous growth estimate and is in line with National Budget estimates for 2013 (NB2013). It is estimated that household public benefits, equal to almost 18 per cent of the GDP for Mainland Norway, will rise by approximately 6 per cent this year. This is equal to a real growth of just over 5 percent. The sum of goods and services purchased by public administration for consumption and investment purposes, as well as benefits, will therefore rise, in real terms, by nearly 3 per cent from 2011 to 2012. This is slightly higher than our estimate of trend growth in the mainland economy.

Our assumptions regarding fiscal policy for 2013 are similar to the estimates in NB2013. We estimate that real growth in public administration consumption will be in line with the growth estimate for 2012, i.e. approximately 2 percent. It is estimated that gross investments will rise by around 4 percent. This is virtually the same rate of growth as in 2012 when defence investment is not taken into account. The strong growth in pension benefits will continue at the same rate as this year. Total real growth in the three afore-mentioned budgetary components, which collectively constitute nearly 90 per cent of total public expenditure, will thus be close to 3.5 per cent from 2012 to 2013. Also, we have based estimates for tax and excise rates on the estimates in NB2013. Roughly speaking, rates have been adjusted to account for growth in prices or income and may be regarded as unchanged in real terms. An exception is the downward adjustment of fee rates next year, which, on its own, contributes to slightly lower price inflation. These estimates are in accordance with assumptions that have formed the basis of our previous economic reviews.

In NB2013, the structural, oil adjusted budget deficit (SOBD) was estimated at NOK 116 billion in 2012. A new balancing of the 2012 national budget (Prop. 42 S) has revised the deficit down to NOK 109 billion, which constitutes 3.3 per cent of value of the fund capital at

the start of 2012. Regarded as part of the trend level for GDP Mainland Norway, the SOBD is estimated at 4.9 per cent in 2012. For 2013, the fiscal plan and national budget estimates mean the SOBD will experience a minor increase in terms of fixed prices, but a slight reduction as a proportion of the estimated fund capital at the turn of next year due to growth in the fund's value.

For 2014 and 2015 there is currently no approved fiscal policy. Uncertainty regarding our assumptions is thus greater than for 2013. The general election next year may result in a change of direction in fiscal policy. However, as in previous cyclical reports, we have chosen to retain the main features of the current direction of fiscal policy. It is estimated that growth in public administration consumption will increase slightly in 2014 and 2015 compared to the estimates for next year, although this is primarily due to the changes in the number of working days from 2013 to 2014 and 2015. Investment growth will rise slightly in accordance with heightened ambitions regarding infrastructure development. Growth in pension benefits will continue at a similar rate as this year and tax rates have been adjusted for price trends, as has mainly been the case in recent years. All in all, this will provide a slightly stronger contribution to growth from the fiscal policy in 2014 and 2015 than in 2012 and 2013. As a consequence of relatively high oil prices in the time ahead, we estimate continuing high growth in the Norwegian Government's Pension Fund Global. This means that even with stronger growth in expenditures, the SOBD, according to our estimates, will be in the interval of 2.5-3 per cent as a proportion of fund capital from 2013-2015.

### Low interest levels in the time ahead

In March this year, Norges Bank reduced the key policy rate by 0.25 percentage point to 1.5 percent. This is just 0.25 percentage point above the record low level of June 2009, which was a consequence of the financial crisis. As an annual average, the key policy rate is likely to be just over 1.5 percent. This is 0.2 percentage points lower than in 2009, which was the lowest key policy rate level to date measured on an annual basis.

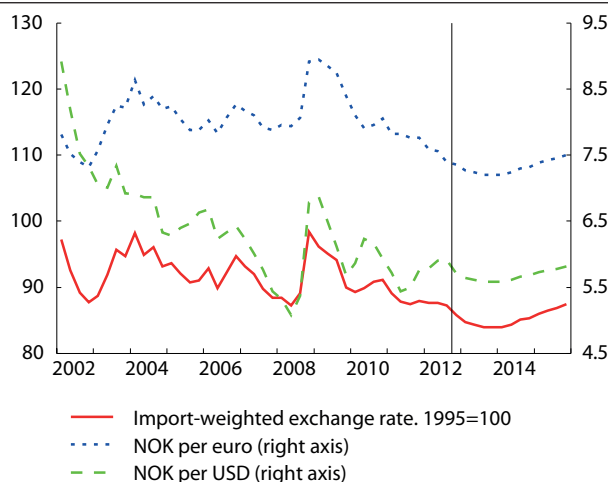
Norges Bank sets the policy rate, although it is market rates that are important to the growth of the real economy. At the start of December, the 3-month interbank rate was 1.9 percent, and the difference between the key policy rate and the interbank rate was thus 0.4 of a percentage point after the markup had remained at this level during this autumn. At the start of 2012, the interbank rate was 2.9 per cent and it has fallen throughout the current year, particularly in connection with the surprising reduction in the policy rate in March this year. The average for the first 11 months of 2012 is just under 2.3 percent. Thus, it would appear that the interbank rate for the year as a whole will be lower than the annual average for the 2009 crisis year, although not as low as in 2004 when the markup on the key policy rate was lower than the current markup.

Figure 3. Norwegian interest rates. Per cent



Source: Norges Bank and Statistics Norway.

Figure 4. Exchange rates



Source: Norges Bank.

The national debt crisis in many countries and the after-effects of the financial crisis in real economic terms goes a long way to explaining the low interest level in Norway. In the Euro zone, the interbank rate is now virtually zero. The high interest rate differential, combined with higher economic growth in Norway, has contributed to strengthening the krone against the Euro. At the start of December this year, one Euro cost around NOK 7.35, which means that the krone is around 10 per cent stronger now than the mean of the exchange against the Euro/ECU over the last 20 years. Much of this is attributable to a weaker Euro. Measured against the import-weighted krone exchange rate, the krone is around 6 per cent stronger than before the financial crisis. As the Euro is weighted at around 1/3 in the import-weighted exchange rate, this still means, however, that the krone has also strengthened itself significantly against other currencies in recent years. Among such currencies is the British Pound, which in the first half-year of 2007 cost almost NOK 12.00, compared to just over NOK 9.00 in early December this year. The strong krone undermines profitability and activity in Norwegian businesses exposed to competition. If interest rates in Norway had not been so low, the krone may possibly have been even stronger, thus exacerbating problems for Norwegian businesses exposed to competition.

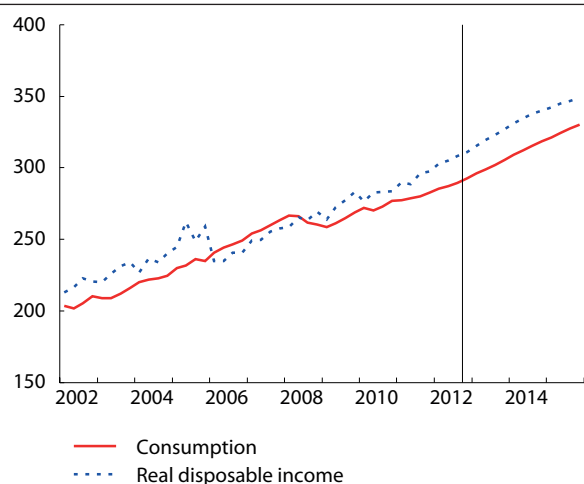
Both the strengthening of the krone and low global growth are factors that have contributed to low imported price inflation. Norwegian inflation, measured at the 12-month growth rate in the consumer price index, adjusted for changes in taxation and without energy products (CPI-ATE), has been at least one percentage point below the inflation target for over two years. In October this year, the 12-month growth rate was 1.1 percent. On its own, the low level of interest in Norway contributes to increased inflation by both limiting the strengthening of the krone and stimulating domestic demand.

Low interest rates also contribute to a relatively high level of lending from Norwegian banks and financial institutions. Gross domestic debt (C2) increased by 7 per cent in the third quarter this year compared to the previous quarter, seasonally adjusted and calculated as an annual rate. This is roughly in line with growth over the last 2 ½ years. Prior to the financial crisis, growth was above 10 percent. Credit growth is highest in local government authorities, with a growth of 8.7 percent, although this is, however, a downturn from previous years. Household credit growth is 8 percent, while in non-financial enterprises credit growth is around 5.5 percent.

House buying is the most common reason for household borrowing. Lower interest rates mean that households are able to service higher home loans. This contributes to increase in house prices. With the exception of a few short periods, the housing market has witnessed a formidable rise in prices over the last 20 years. The rise in house prices and household borrowing can be mutually strengthening. Increased prices increase the mortgage value of houses, enabling higher levels of borrowing. By utilising these options, households are able to bid higher, thus forcing house prices up. Higher house prices and debt burdens may further compound future negative cyclical shocks. Figures from both Statistics Norway and the estate agent sector's housing price statistics show a high level of growth in house prices.

The average rate of interest on loans from financial institutions on lines of credit secured on dwellings, can be regarded as a good indicator for the mortgage rates generally, refer to box 3 in Economic Survey 1/2012. At the end of the third quarter of 2012, this interest rate was 3.7 percent, 0.1 of a percentage point lower than the previous quarter. At the end of the third quarter, the bank deposit rate stood at 2.3 percent, identical to the end of the previous quarter.

Figure 5. **Income and consumption in households. Seasonally adjusted at constant 2010 prices. NOK billion. Quarter**



Source: Statistics Norway.

In our projections we assume that Norges Bank will maintain the current key policy rate until the turn of the year 2013/2014. This is largely attributable to poor global growth resulting in low foreign interest rates. Thus, on an annual basis, the key policy rate will be even lower next year than this year. Both the strong krone and low inflation are reasons for maintaining low interest levels. The high growth in lending and house prices coupled to a low level of unemployment would point towards a rise in interest levels. We therefore believe that the policy rate will gradually rise in 2014 and 2015. The interbank rate will follow the policy rate and will rise to 4 per cent in the fourth quarter of 2015. The significant difference in interest rates between Norway and the Euro zone will ensure that the krone remains strong against the Euro. This will contribute to a strong import-weighted krone exchange rate throughout the whole prognosis period. The krone is expected to strengthen by just over 3 per cent next year, whether measured against the Euro or by the import-weighted exchange rate. Throughout 2014 and 2015, the krone will weaken by just over 4 per cent in total. This weakening is attributable to increased inflation in Norway compared to abroad, as well as an anticipated decline in the price of oil. At the end of 2015, the krone is expected to end on an exchange rate of 7.50 measured against the Euro.

At the start of the third quarter this year, the difference in interest levels between interest rate on credit lines secured on dwellings and the interbank rate was 1.7 percentage points. On average, this markup was one percentage point lower in the period from when such loans were broadly launched in 2006 and to the end of 2011. We expect a slight reduction in the markup in the time ahead, although it will remain at a higher level than we have been accustomed to. This is because financial institutions need to develop equity capital through stricter regulations on equity capital. The interest rate on credit lines is expected to reach just over

5 per cent at the end of 2015 and the markup on the interbank rate will then have fallen to 1.2 percentage points.

### Consumption growth picks up

Seasonally adjusted quarterly national accounts figures indicate that consumption in households and non-profit organisations rose by 0.8 per cent in the third quarter this year, roughly the same as in the two previous quarters. Goods consumption showed a modest growth of 0.2 per cent in the third quarter, compared to 1.1 per cent in the second quarter. There was a particular decline in the consumption of food, drink and electricity, together with increased consumption within the transport sector, and in clothing and footwear, which contributed to growth. Spending on services, however, showed an increase of as much as 1.0 per cent in the third quarter – half a percentage point stronger than growth in the second quarter – with a particularly strong contribution from leisure and transport services consumption. The goods consumption index for October shows a downturn of 1.1 per cent compared to the previous month. The number of first-time registered vehicles, seasonally adjusted, rose by only 0.6 per cent in October and fell by 2.4 per cent in November. This points towards poor growth from the third to the fourth quarter this year. On an annual basis, we now anticipate a collective growth in consumption of 3.3 per cent, barely one percentage point higher than in 2011.

Growth in household income, housing stock and interest levels are important factors for consumption trends. Real household disposable income rose by 4.1 per cent in 2011. In particular, income from employment, which is the largest source of household income, contributed to the high income growth following the positive growth in employment and significant rise in real disposable income. Institutional quarterly national accounts show that real disposable income in the third quarter of this year was 3.7 per cent higher than the same period in the previous year. The corresponding rise in the first and second quarter this year was as much as 5.7 per cent and 4.9 per cent. Behind this trend is strong growth in both income from employment and in public benefits, but also low price inflation. We now anticipate that annual growth in real disposable household income will be between 4.5 and 5 per cent per year in the period 2012-2014. Following this, we estimate that increasing inflation and interest rates will dampen the growth of real disposable household income and, thus, also consumption. Continued growth in house prices will, however, increase housing stock and stimulate household consumption. We now estimate that average consumption growth will be as much as 4 per cent per annum in the period 2013-2015. This is a somewhat poorer consumption trend than during the cyclical upturn from 2004 until 2007. In addition, population growth is now higher than during this period so that, per capita, the difference in consumption growth is even greater.

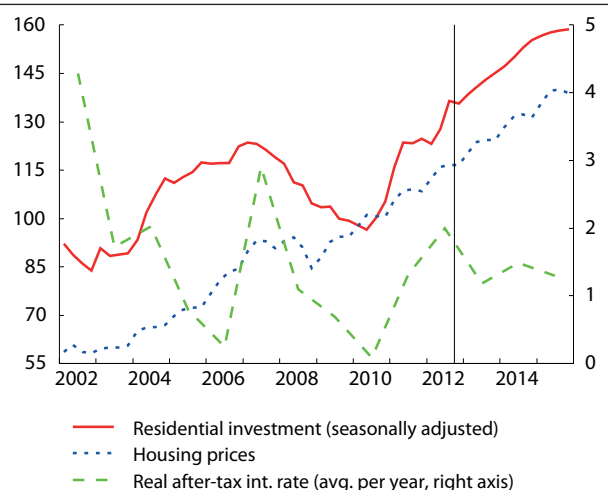
The household savings rate was close to 7.5 per cent in 2011. From a historical perspective, this is relatively high. In the wake of the financial crisis, this precautionary-motivated household savings has increased as a consequence of the uncertainty regarding personal income. With the continuing uncertainty surrounding the global economy, we expect this type of savings behaviour to continue throughout the projection period. Thus, we assume that the savings rate may be as much as just over 8 per cent this year and will increase to around 9 per cent in both 2013 and 2014, before reducing to just over 8 per cent in 2015.

### Housing investment continues to rise

The marked upturn in housing investment continued in the third quarter with even stronger growth than in the previous quarter. Following an increase of 6.8 per cent in the third quarter, housing investment is now more than 10 per cent higher than the previous record level from before the financial crisis.

Building area statistics, one of the main indicators used to estimate housing investment, have significantly increased in the last two quarters. This year to date, work

Figur 2.6. **Residential market. Left axis adj. indices. 2010=100. Right axis per cent**



Source: Statistics Norway.

has commenced on just over 22,000 new housing units, of which 8,000 were in the third quarter. The latest monthly figures for October, however, show a significantly lower number of housing units than in previous

#### Box 1. Soft landing in the housing market

The developments in the Norwegian housing market have long been given great attention. Many people are of the opinion that Norwegian housing prices have reached a level, or are gaining a level where a considerable fall in housing prices is likely. In many countries, housing prices have fallen a lot both nominally and in real terms in the aftermath of the financial crisis. In Norway, the decline lasted only two quarters, from the end of 2008 and into 2009. Thereafter, housing prices have increased considerably.

Our projections for the Norwegian economy up to 2015 show an annual increase in nominal house prices of 6-7 per cent. Price increases in real terms which are arrived at by deflating the second-hand housing market index with CPI, is reasonably somewhat less. The figure shows the real growth in house prices and the growth in GDP mainland Norway from 2010 to 2020 according to the model calculations in KVARTS. The upshot of this is that the price growth of housing in real terms is going to fall in the future. In 2015 the growth in the real housing price is 4 per cent compared to 6 per cent for this year. After 2015 the growth in housing prices in real terms is expected to fall further down towards approximately 1 per cent at the end of this decade.

Growth in mainland GDP is expected to be lower after 2016. The international growth is anticipated to reach a peak in 2016/2017, while in general there can be moderate growth in petroleum investments during the years after 2015. We have estimated a money market interest rate of 4 per cent nominally from 2016 and a higher interest level than at present will contribute to lower growth in the economy. The financial policy is anticipated to give approximately the same impetus after 2015, which we have assumed up to and including 2015.

The present upturn in the Norwegian economy is driven to some degree by the growth in housing investments. That will increase housing capital and the supply of houses and have a curbing effect on price growth of houses. On the other hand, higher interest rates will curb the growth in the demand for housing. Lesser growth in the economy as a whole will contribute to this. Viewed as such we foresee a "soft landing" in the housing market. The high price growth in real terms on houses which we have observed and which will continue for some years yet, will gradually lessen and approach the real growth in the economy of mainland Norway. The prospects for a soft landing in the housing market results from that we have assumed moderate cyclical movements without large and sudden changes in interest rates, housing taxation or other large cyclical impetus in the Norwegian economy.

#### Inflation in housing prices in real terms and GDP mainland Norway. Per cent

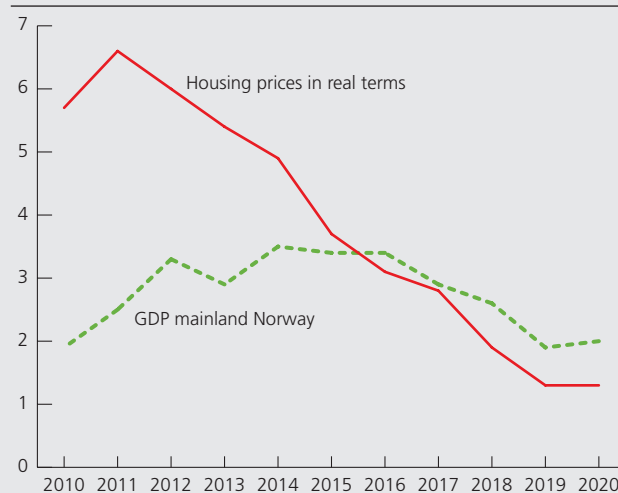




Table 2. Household real disposable income. Percentage growth compared with previous year

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total	-6.4	6.3	4.0	4.1	2.7	4.1	4.7	5.0	4.7	2.8
Excluding share dividends	4.2	5.0	3.1	4.0	2.3	4.1	4.7	5.0	4.5	2.7

Source: Statistics Norway.

months. Nonetheless, we believe that this does not represent any slackening in the tendency towards increased housing investment. Even with the modest growth in the number of new housing units being built in the last two months, the level will clearly exceed 30,000 housing units this year, compared to around 28,000 in 2011.

The ratio between house prices and construction costs is important to the growth in housing investment. In our model, real house prices are driven by real household income, interest levels, as well as the size of the housing stock. The general forecast for these factors points collectively in the direction of further growth in housing investment. We anticipate that investment growth will be 8 per cent this year and will be slightly higher next year, before diminishing somewhat in 2014 and 2015. This is due to the eventual increase in interest levels, as well as a decline in real income.

House prices have risen markedly over the last three years. According to Statistics Norway's house price index, house prices rose by 0.6 per cent in the third quarter, representing a growth of 7 per cent compared with the same quarter in the previous year. This year to date, neither increased housing construction nor seasonally adjusted has resulted in a decline in house price growth. According to the estate agent sector's house price statistics, a tightening of credit standards for first-time home-buyers, house prices increased in October and November by 0.8 and 0.4 per cent respectively. Based on the growth in housing construction, household income and interest rates, as well as population growth, we anticipate an annual house price growth of 6-7 per cent in the prognosis period. Box 1 contains a set of further projections for house prices through to 2020.

### High level of investment activity in the petroleum sector

Low drilling activity contributed to a decline in seasonally adjusted investment in the third quarter this year. There are usually major swings from quarter to quarter in petroleum investment and figures are often subsequently revised. Despite the downturn in the third quarter, there are no signs of any change in direction in petroleum investment. Both the industry itself and suppliers have reported a high level of activity and anticipate further growth.

In the early 2000s, drilling activity was greater than investment in platforms. This trend has now ceased. Exploration drilling will probably maintain itself at roughly current levels, while production drilling is

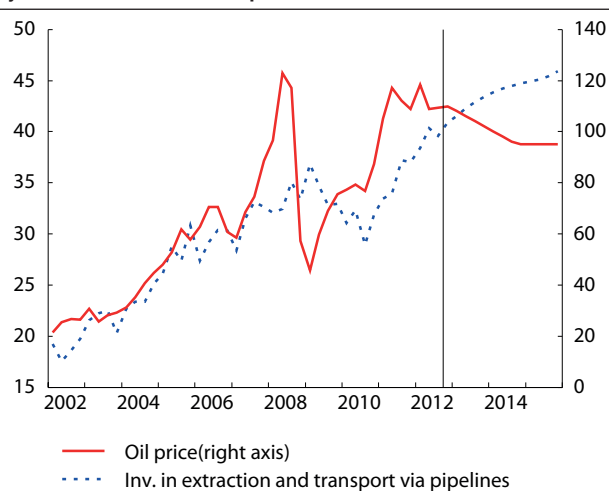
expected to continue rising. Investment in platforms includes both new fields and upgrading of older fields. In this area, growth will be significant in the time ahead. The service life of the first Norwegian oil and gas fields has risen in relation to original assumptions when these fields were first developed and the need to upgrade has increased in tandem with the extended service life. New technology and higher oil prices have also made it profitable to reopen previously closed fields such as Yme, for example. In addition, several smaller fields in proximity to older fields have contributed to a rise in investment activity.

Several field developments on the Norwegian shelf have experienced cost overruns, which the National Accounts will primarily interpret as volume expansion. This is also a major reason for the high level of platform investment in the current and previous year.

We anticipate that the strong growth in investment in 2011 and 2012 will diminish, although there will continue to be a marked growth over the next two years before growth stabilises in 2015. The new fields located in 2011 are expected to make a modest impact on platform investment during our prognosis period but indicate that the investment level slightly further into the future will sustain itself more effectively than previously estimated.

Oil prices have remained high over the last two years with prices at over USD 100 per barrel. Market expectations are that oil prices will remain high, but will also decline somewhat. We estimate a gradual decline in the spot price of oil to USD 95 per barrel during 2014.

Figure 7. Petroleum investments and oil price in USD. Seasonally adjusted at constant 2010 prices. NOK billion. Quarter



Source: Statistics Norway.

A high level of profitability coupled to further finds has engendered optimism and increased activity. In particular, new finds have helped to sustain wildcat activity. Fast-track projects, in which smaller finds are connected to existing fields, have been stimulated by new technology. Such developments occur considerably faster than traditional developments and have reduced the amount of elapsed time from making a find to field development. Thus, the change in wildcat activity will have a more obvious impact on field development.

Oil production experienced a significant downturn in the third quarter of this year, which contributed to a decline in total petroleum production. Production was approximately at the level of the same quarter in both 2010 and 2011, although considerably lower than the production level of previous years. A reduction in the number of maintenance shutdowns may pave the way for increased extraction of both oil and gas next year. In accordance with the Norwegian Petroleum Directorate's prognoses, we assume there will be a slight increase in extraction in the coming years. With a minimal increase in production, there will be a modest rise in value creation, measured in fixed prices. Over the last eight years, the use of product input in the industry has increased as a percentage of production. Thus, unit costs have significantly increased. We expect this trend to continue in the coming years.

### Slight upturn in business investment

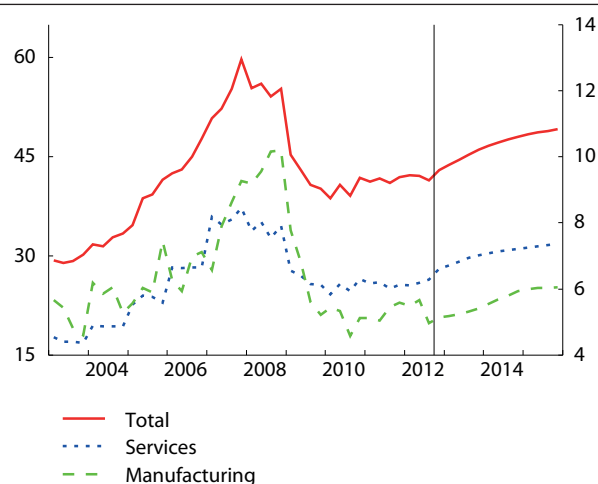
The financial crisis led to investment in mainland industries throughout 2009 and into 2010 falling by as much as 30 percent. After showing signs of recovery throughout the remainder of 2010, the investment level has remained virtually unchanged, with a moderate decline in the third quarter of this year.

In the third quarter, the manufacturing and mining sectors experienced the weakest growth. The decline was broadly based, largely attributable to poor market prospects within many of the capital-intensive industries, coupled to a tighter credit market. There was, however, a strong rise in investment in the shipbuilding sector, as well as the timber and woodwork industry.

Investment in agriculture and forestry over the last two years has constituted almost half of business investment. The variations are smaller here because weak global economies influence agricultural profitability to a lesser extent. Despite this, the most recent QNA figures show that investment clearly decreased throughout 2012, and particularly in the second and third quarter.

Service industry investment has, to a large extent, taken the same route as business investment. Real estate activities, which clearly are the largest service industry, experienced a strong downturn following the financial crisis. Investment in commercial premises was halved over a short period of time. This was followed by major variations in these investments. However,

Figure 8. **Investments. Mainland Norway. Seasonally adjusted at constant 2010 prices. NOK billion. Quarter**



Source: Statistics Norway.

an improvement in market prospects may explain the upturn that has been registered to date in 2012, most prominently in the third quarter. Nonetheless, the level of investment is 30-40 per cent lower than before the financial crisis.

Investment in the transport sector has increased after the financial crisis. This is partly attributable to the upgrading of major airports in Norway. Following a slight downturn throughout 2011 and into 2012, there has been significant growth during the remainder of the year. In the third quarter, investment in the industry rose by 14 percent. In addition, investment activity among IT enterprises has been high, with only a modest drop in 2009 and virtually unchanged levels of investment in the subsequent period.

Major development projects have had, and are expected to continue having, a major impact on investment in energy supply. A major upgrade to the electricity grid is currently being undertaken throughout Norway. Over the last three years, the level of investment has risen by over 50 percent, with a further rise in the third quarter. In tandem with several new energy sector developments within both hydro power and wind power, this will contribute to significant growth in the level of investment in the time ahead.

It may take a while for the high level of investment experienced in the mid-2000s to be seen again in the manufacturing sector. At the time, positive productivity developments and favourable prices resulted in unusually high profitability and this probably played a part in raising the level of investment within the manufacturing industry during the last boom. Also, the collective investment in this industry was clearly influenced by the development project at Mongstad, which was completed around the same time as the financial crisis.

The available capacity in major parts of the manufacturing sector coupled to modest profitability in many manufacturing companies is expected to lead to poor

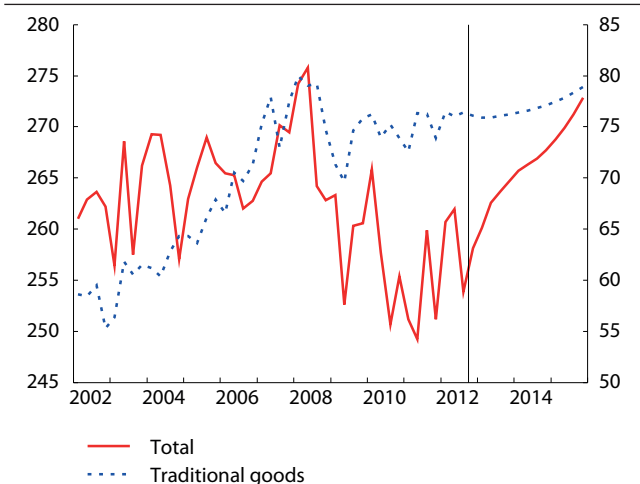
Table 3. **Main economic indicators 2010-2015. Accounts and forecasts. Percentage change from previous year unless otherwise noted**

	Accounts 2011*	Forecasts									
		2012			2013			2014		2015	
		SN	NB	MoF	SN	NB	MoF	SN	NB	SN	NB
<b>Demand and output</b>											
Consumption in households etc.	2.5	3.3	3 1/2	3.7	4.2	4 1/4	4.0	4.4	3 3/4	3.8	3 1/4
General government consumption	1.8	1.9	1 3/4	1.9	2.0	2 1/4	2.1	2.5	..	2.6	..
Gross fixed investment	7.6	6.4	..	7.7	7.3	..	5.8	5.7	..	3.7	..
Extraction and transport via pipelines <sup>1</sup>	14.1	11.7	14	15.0	7.8	9	7.0	4.2	4	1.8	3
Mainland Norway	8.5	2.8	4	5.2	7.5	6 3/4	5.5	6.0	..	4.1	..
Industries	3.5	1.2	..	4.9	7.2	..	5.1	5.4	..	3.0	..
Housing	21.9	8.0	..	9.0	10.0	..	8.0	6.8	..	4.3	..
General government	2.2	-1.3	..	0.5	4.3	..	2.8	6.1	..	6.0	..
Demand from Mainland Norway <sup>2</sup>	3.3	2.8	3	3.5	4.2	4 1/4	3.8	4.2	4	3.5	3 3/4
Stockbuilding <sup>3</sup>	0.1	0.4	..	..	0.0	..	..	0.0	..	0.0	..
Exports	-1.8	1.9	..	1.6	2.3	..	1.4	1.2	..	1.5	..
Crude oil and natural gas	-6.2	1.3	..	1.0	3.7	..	-0.1	0.4	..	-0.2	..
Traditional goods <sup>4</sup>	0.0	1.7	1	1.3	0.0	1	2.2	0.8	..	1.8	..
Imports	3.8	4.0	1 1/2	4.2	6.4	5 1/4	5.4	4.6	..	3.9	..
Traditional goods	3.6	2.3	..	4.4	6.1	..	5.6	5.1	..	4.3	..
Gross domestic product	1.2	3.1	3 1/4	3.1	2.8	2 1/2	2.5	2.8	2 1/4	2.4	2 1/4
Mainland Norway	2.5	3.3	3 3/4	3.7	2.9	3	2.9	3.5	2 3/4	3.4	2 3/4
<b>Labour market</b>											
Employed persons	1.3	2.2	2 1/4	2.1	1.9	1 3/4	1.3	1.4	1 1/4	1.5	1 1/4
Unemployment rate (level)	3.3	3.1	3	3.1	3.2	3	3.2	3.3	3	3.3	3
<b>Prices and wages</b>											
Annual earnings	4.2	4.3	4	4.1	3.9	4 1/4	4.0	4.2	4 1/2	4.7	4 1/2
Consumer price index (CPI)	1.2	0.8	3/4	0.8	1.4	2	1.9	1.3	2	2.1	2 1/4
CPI-ATE <sup>5</sup>	0.9	1.2	1 1/4	1.3	1.0	1 1/2	1.7	1.3	2	2.1	2 1/4
Export prices, traditional goods	5.7	-2.1	..	-0.9	-2.0	..	0.6	1.7	..	2.9	..
Import prices, traditional goods	4.2	0.0	..	0.4	-3.1	..	1.2	0.8	..	2.7	..
Housing prices	8.0	6.8	..	..	6.8	..	..	6.2	..	5.9	..
<b>Balance of payment</b>											
Current balance (bill. NOK)	374.0	401.1	..	381.3	343.6	..	340.8	288.5	..	260.0	..
Current balance (per cent of GDP)	13.6	13.7	..	13.3	11.4	..	11.4	9.3	..	8.0	..
<b>Memorandum items:</b>											
Household savings ratio (level)	7.3	8.3	..	8.8	8.9	..	8.5	9.1	..	8.3	..
Money market rate (level)	2.9	2.2	2.3	2.2	1.9	2.0	2.0	2.5	2.7	3.6	3.3
Lending rate, credit loans (level) <sup>6</sup>	3.6	3.8	..	..	3.6	..	..	3.8	..	4.8	..
Crude oil price NOK (level) <sup>7</sup>	621	651	..	637.0	589	..	625.0	548	..	548	..
Export markets indicator	5.2	1.6	..	..	2.2	..	..	4.1	..	5.4	..
Importweighted krone exchange rate (44 countries) <sup>8</sup>	-2.4	-1.2	-1.3	-1.2	-3.2	-1.4	0.5	0.5	-0.6	2.4	0.3

<sup>1</sup> Forecasts from Ministry of Finance incl. service activities incidental to extraction.<sup>2</sup> Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.<sup>3</sup> Change in stockbuilding. Per cent of GDP.<sup>4</sup> Norges Bank estimates traditional exports, which also includes some services.<sup>5</sup> CPI adjusted for tax changes and excluding energy products (CPI-ATE).<sup>6</sup> Yearly average.<sup>7</sup> Average spot price, Brent Blend.<sup>8</sup> Increasing index implies depreciation. Ministry of Finance forecasts trade-weighted exchange rate.

Source: Statistics Norway (SN), Ministry of Finance, St.meld. nr.1 (2012-2013), (MoF), Norges Bank, Pengepolitisk rapport 3 /2012 (NB).

Figure 9. **Exports. Seasonally adjusted at constant 2010 prices. NOK billion. Quarter**



Source: Statistics Norway.

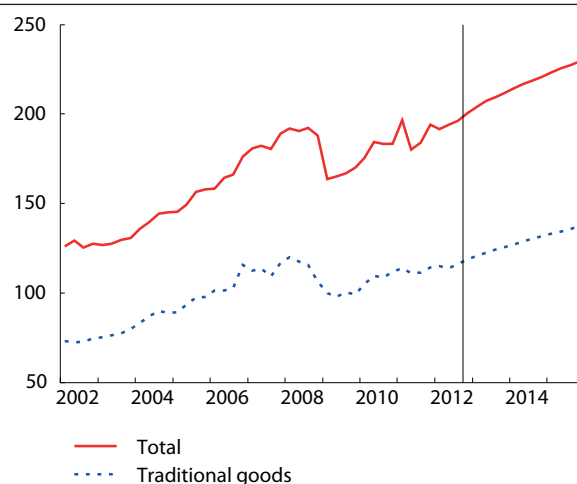
investment growth in the coming year. In tandem with improved market prospects, both profitability and production will pick up. We anticipate that this will contribute to raising investment levels in both the manufacturing industry and service sectors. There are major differences in growth within the manufacturing sector. The food industry has conducted major co-localisation projects in recent years. Thus, it is this industry that has accounted for the most significant level of investment in recent years and helped sustain business investment. We do not expect this trend to persist.

A high level of activity within the petroleum sector is helping to push the capacity limits in the engineering industry. Continued production growth in the engineering and shipbuilding sectors is likely to require increased capacity. Thus, there is potential for investment growth in these industries in the coming years. Traditionally, there has been major investment in the primary production industries. In these sectors, investment clearly decreased in 2008 in line with declining prices. Here as well, the upturn in capacity was substantial prior to the financial crisis, which has dampened the investment outlook. Several factories have shutdown in recent years, in both manufacture of paper and paper products, as well as metal production. When the global price of raw materials picks up and activity increases again towards the end of our prognosis period, investment in these industries is expected to rise.

### **Towards lower profit on the current account balance**

For the last couple of years overseas foreign trade has been marked by a considerably weaker volume development in exports than in imports. The international decline in economic activity has slowed down the demand for Norwegian export products. The cost development in Norway and a strong krone have weakened export companies' competitiveness. High growth in domestic demand in Norway has stimulated imports. The international decline in economic activity and the

Figure 10. **Imports. Seasonally adjusted at constant 2010 prices. NOK billion. Quarter**



Source: Statistics Norway.

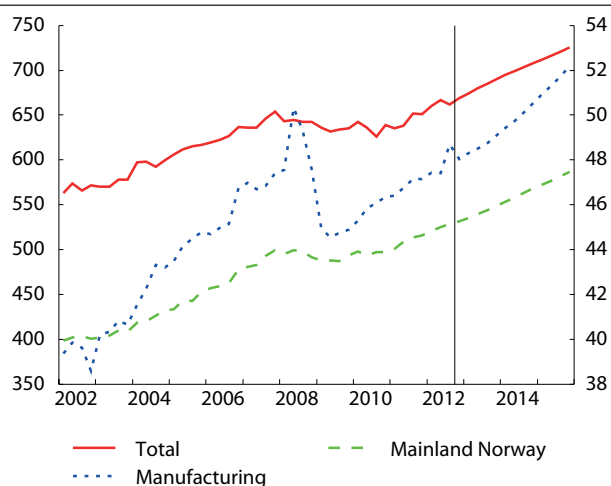
rising exchange rate for the krone have contributed to low importation prices. The trade surplus measured in fixed prices was reduced a little in 2010 and 2011, but the terms-of-trade gains have ensured an increase in the surplus measured in current prices. Oil and gas prices in particular have been decisive for improvement in the terms of trade.

The growth in exports as well as export prices seems to be declining over the last six months. According to the seasonally adjusted Quarterly National Accounts (QNA), figures for the third quarter this year, traditional goods exports increased by 0.5 per cent, after an equivalent decline in the second quarter. Exports of machinery and equipment, farmed fish, electrical equipment and plastic products as well as pharmaceutical products have increased in several quarters in succession, while exports of metals, chemical products and autodiesel have fallen in several quarters in succession. During the whole of 2012, traditional export is expected to increase with less than 2 per cent. Export of crude oil and natural gas fell in the third quarter this year. Oil exports continued a production-based trend-related decline, while gas production was temporarily reduced by periodic maintenance work. Export of services has fallen a little in three quarters in succession, but the level is still well above the average in 2011. We also expect that the annual growth in 2012 to be higher than for traditional export.

Seen overall, prices for traditional export goods have fallen for over a year – in 2012 with up to a couple of per cent in each quarter. In particular, there has been a weak development in export prices for fish and fish products, wood processing products, metals, some manufacturing products, rubber and plastic products, as well as electricity. On an annual basis, a price decline of well 2 per cent is indicated in 2012. Oil prices are keeping a higher level than the fundamental circumstances indicate, and are strongly affected by the political situation in important production countries.



Figure 11. **Gross domestic product. Seasonally adjusted at constant 2010 prices. NOK billion. Quarter**



Source: Statistics Norway.

Export prices for crude oil and natural gas rose a little in the third quarter, after a larger fall in oil prices in the second quarter. Without major changes in the fourth quarter, the price development will be almost 5 per cent in 2012, which is much lower than for each of the previous two years.

The volume of imports continues to increase while the price development has been almost flat for six months. Traditional goods import grew by 1.9 per cent in the third quarter this year, after a minor decline in the previous quarter. We expect a growth of over 2 per cent for the whole of 2012. According to QNA, growth in import prices for traditional goods has fluctuated around zero for the last six quarters, and this gives only small changes in the level of import prices in 2012 compared to 2011.

The weak development in exports throughout the year has contributed to reducing the trade surplus, which has fallen with almost 18 per cent from a record high level in the first quarter to the third quarter this year. But if we compare January to October this year with the same period last year, the trade surplus is almost 13 per cent higher in value. In October this year was the trade surplus almost 16 per cent higher than in October last year. Higher oil and gas prices in 2012 explain much of this. There are indications that the trade surplus this year can be the highest since the record year of 2008.

For the years 2013-2015 we estimate that the prices for traditional export goods will have a much weaker development than in 2010-2011, as well as that oil and gas prices will be somewhat reduced. During the prognosis period, the cost development in Norway will weaken the competitive power for producers of traditional export goods. That will contribute to a continued loss of market shares. The export of services is more competitive and is expected to show better growth. Continued domestic economic recovery will increase demand and thus stimulate the growth in imports.

When not considering oil and gas prices, we expect that import prices will largely develop the same as the export prices measured in Norwegian kroner, with a decline next year and increasing price inflation in 2014 and 2015.

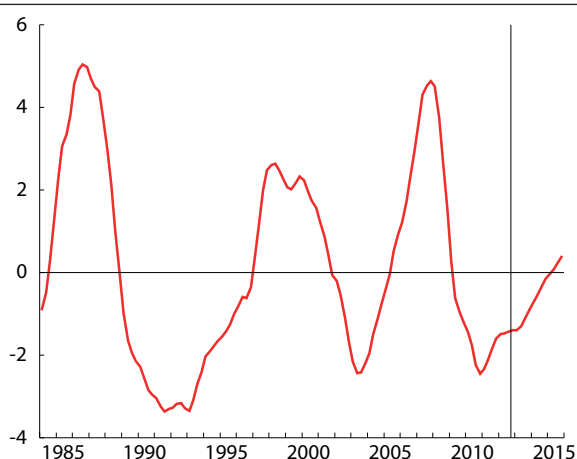
Weaker growth in exports than imports and weakened terms of trade for abroad – including reduced oil and gas prices – are factors which are expected to contribute to reduced surplus on the external account the next few years. The trade surplus is projected to be reduced from about NOK 380 billion in 2012 to about NOK 220 billion in 2015. The net factor income and transfers surplus is estimated to be between NOK 20 billion and NOK 40 billion during the prognosis period. The expected surplus on the current account balance measured as a share of GDP is expected to fall from almost 14 per cent in 2012 to under 8 per cent in 2015.

### Economic recovery

GDP for mainland Norway increased in the third quarter this year by 2.7 per cent as an annual rate, and by 3.6 per cent if one deducts the production in electricity supplies etc. New and revised season-adjusted QNA figures show a little different GDP progress than previously. The economic turnaround, when the actual growth rate exceeds the trend growth, looks to have been moved one quarter back in time so that the downturn is now fixed at the fourth quarter of 2010. The present economic recovery has therefore lasted for seven quarters. Mainland GDP has grown during this period by an average of 3.5 per cent calculated as an annual rate, while the trend growth is slightly more than 2.5 per cent. The present economic recovery came after five quarters with an average growth of only 1.1 per cent, also calculated as an annual rate. Before this, the financial crisis contributed to a fall in mainland GDP by 2.4 per cent during the course of five quarters.

In the present economic upturn there has been a clear growth in all principal industries, but with considerable differences in strength. The growth in production in public administration during this period has been just under the trend growth of mainland GDP, while the development in the market-related part of the economy has been clearly higher. The strongest growth is to be found in other goods production than industry. Building and construction, fishing, hunting and aquaculture, and power supplies have grown strongly. The QNA figures for the third quarter this year, however, show a decline in all these three industries. We do not believe that this entails some shift in trend, but that it can be regarded more as random swings. Electricity supplies will in the short term probably continue to decline since there has been abnormal inflow of water during the period. This has led to very high production during the first three quarters of the year, even though there was a decline in the third quarter. But also in this industry, however, one can count on underlying growth which will manifest itself as increased production in

Figure 12. **Output gap. Mainland Norway. Deviation from trend. per cent**



Source: Statistics Norway.

a little longer time perspective, not least as a result of increased capacity.

A very strong increase in production in manufacturing and mining was registered in the third quarter, with a growth from the previous quarter of a total of 2.7 per cent or just above 11 per cent calculated as an annual rate. To and including the second quarter, the industry had a weaker development than the trend, with a decline in largely all the branches of manufacturing except food and the most oil-related industries. Oil-related branches of manufacturing are to be found in the production of metal goods, electrical equipment and machines and shipyards and other transport industry. These have had a strong increase throughout the upturn and very strong increase in the third quarter. In this quarter, there was also growth in the chemical and graphic industries, a development we do not expect to continue.

In market-related services, the growth in production in the economic upturn has been hardly one per cent point over the trend growth in the mainland economy, also in the third quarter. Technical consultancy activities – auditing, etc., and especially business-related services, but also in goods trade and transport, have grown strongly all the time. The growth in accommodation and food services has also been relatively high throughout the upturn, but this must be seen on the background of the strong downturn in the aftermath of the financial crisis, and the level of activity in the third quarter of 2012 was still 2.5 per cent under the level in the second quarter of 2008. In the postal and distribution industry, a downturn of a more structural nature started at the same time as the general economic development increased, and the downturn was very strong in the third quarter. Other parts of the market-related service industry have grown, but are just under the level of the trend growth.

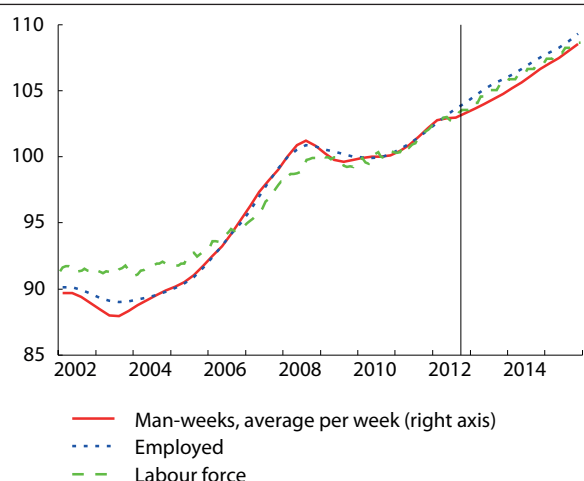
Even though the figures are adjusted for normal seasonal variations, the latter years have seen relatively large swings in oil and gas production. During the third quarter, the gross product in the extraction industry fell by 7.7 per cent after having increased by a total of 5 per cent through the previous two quarters. In ocean transport there was also a decline after this activity has largely increased previously during the Norwegian upturn phase. However, services connected to extraction – which is defined outside the mainland economy – also showed a clear increase in production during the third quarter, as we have seen for a long time. Despite this, the total GDP fell by 0.8 per cent in the third quarter.

The direct significance of the development in ocean transport for the Norwegian economy is modest, but within services connected to extraction there are activities having great significance. We assume that this activity will increase somewhat in the future, but clearly less than we have seen for the last decade, where the annual growth has been close to 15 per cent. Petroleum production is expected to increase somewhat in 2013, but change little thereafter. Modest growth in ocean transport from now on will contribute to that the GDP development in total is expected to be a little weaker than for mainland Norway in 2013, and clearly weaker thereafter.

Our calculations show continued Norwegian economic upturn from now on. However, it is not a strong upturn, and only at the change of the year 2014/2015 can we see that capital utilisation for the economy as a whole can be seen as normal. However, there will still be large differences between the industries. Within our prognosis horizon we assume that the demand from the petroleum industry will continue to grow clearly, but more moderately than we have seen lately. This contributes to the growth and that the degree of capital utilisation in large parts of the supplier industry will continue to be high.

Despite the fact that the growth in investments in the mainland industries are expected to increase reasonably moderately in relation to a more normal economic upturn, it will nevertheless, together with increased investments in public administration and increase in residential building, give marked impetus towards the building and construction industry. Continued high growth in household consumption will contribute to that the growth in production in sheltered consumption-related industries will increase. Through deliveries of intermediate inputs, the economic upturn will contribute to growth in service industries directed towards other companies.

We assume that the fish farming industry will continue to grow clearly. In other traditional export industries we expect a relatively weak development, even though the growth in the world economy after some time will increase and thereby contribute to increased growth in some of these industries. We estimate that

Figure 13. **Labour force, employment and number of man-hours.** Seasonally adjusted and smoothed indices. 2010=100

Source: Statistics Norway.

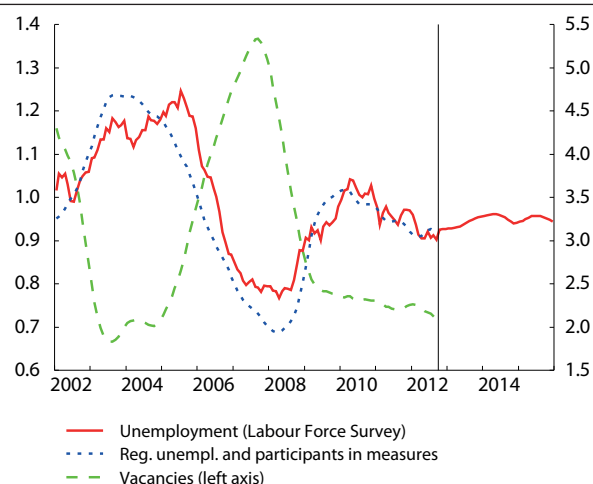
the development in power supplies will contribute to reduce the growth in the mainland GDP to just below 3 per cent in 2013. In 2014 and 2015 we expect that the growth will be somewhat higher.

### Stable unemployment and employment growth

Employment shows a positive and steady growth so far this year. The increase in the first three quarters is 36 000 persons. However, there is also a strong increase in the population, and as a share of the population, growth in employment is 0.5 percentage points from the fourth quarter last year. According to the Labour Force Survey (LFS), employment increased from the period May-July to August-October this year by an average of 17 000 persons.

The upturn in employment comes first and foremost in the building and construction industry, extraction of oil and natural gas as well as other market-related service production. The employment in manufacturing is about on the same season-adjusted level as at the beginning of the year, but there are large differences in the growth of employment growth between the industries. Thus so far this year, employment fell by nearly 27 per cent within production of paper and paper products and by nearly 10 per cent within production of basic chemical commodities. On the other hand, employment increased within building of ships, oil platforms and moduls with 5 per cent. There was also a clear growth in the food industry.

The relatively positive picture of the labour market is mirrored in that unemployment measured by LFS has fallen steadily after a peak of 3.6 per cent in the fourth quarter of 2010. So far this year, unemployment has fallen from 3.2 per cent during the first quarter to 3.0 per cent in the period August-October. During 2011 the unemployment rate had small fluctuations around the annual average of 3.3 per cent. We estimate that LFS unemployment to be 3.1 per cent of the labour force in 2012.

Figure 14. **Unemployment and number of vacancies.** Per cent of labour force. Seasonally adjusted and smoothed

Source: The Norwegian Labour and Welfare Service and Statistics Norway.

The figures for registered unemployment from by the Norwegian Labour and Welfare Organisation also confirm a stable development in unemployment until November this year. The registered unemployment including unemployed on initiatives is about the same level as the LFS unemployment, equal to 3.0 per cent. If we look at the number of registered unemployed, this rate is also stable and was 2.3 per cent in November.

There are fewer vacancies in November than in October, and than in November last year, but the supply of vacancies seen over the past year is relatively stable. Figures from Statistics Norway shows a reduction in the number of vacant positions in the second and third quarters this year compared with the same quarters last year. This could imply a lower employment growth in employment from now on.

The Norwegian Labour and Welfare Organisation define unemployed persons who have been out of work for 26 weeks or more as long-term unemployed. It has proved to be difficult to get the long-term unemployed persons back to work, and a change in their number is therefore an independent indicator for the pressure on the labour market. In November, there was a reduction in the number of long-term unemployed persons.

The labour force (total of employed and unemployed) from LFS has varied somewhat throughout the year and fallen in June and July. On the other hand, the participation rate (labour work force in per cent of the population) from LFS has been stable throughout the year, but is still on a lower level than before the financial crisis. In September, the share was 71.6 per cent, while it was somewhat lower in June, July and August. The development in the labour force is affected by the demographic circumstances such as changes in the composition and the size of the population, but also by changes in employment for different groups. However, employment participation rate is fairly stable for all age groups.

From now on, high demand by the petroleum industry and growth in domestic demand will contribute to continued employment growth in both in the shipbuilding and transport equipment industry, and the food industry. The weak development in the Norwegian competitiveness contributes to a negative development for many of the other industries. Overall, manufacturing employment is expected to fall slightly from now on. The building and construction industry, as well as the market-oriented service production, are driven by domestic demand and therefore have good employment prospects in the projection period. The latest development in the number of vacant positions curbs this impression somewhat. Overall we expect that the growth in employment will be lower in the projection period than during the present year.

Norwegian and international conditions indicate a considerable growth in foreign labour immigration. This means a high growth in population and considerable growth in the labour force. A slightly lower growth in employment therefore entails that unemployment can increase somewhat. We estimate the LFS unemployment to be 3.1 per cent this year, 3.2 per cent next year, and 3.3 per cent in 2014 and 2015.

### High growth in real wages this year

At present, Statistics Norway is preparing structural statistics for the development in monthly earnings. So far, monthly earnings have been estimated for employees in financial intermediation, professional, scientific and technical activities and administrative and support service activities. The monthly earnings include basic monthly salary, irregular payments and bonuses, while overtime pay is not included. The growth in wages in financial intermediation is moderate, and the average monthly earnings for full-time employees has increased by only 0.4% from 1 September last year to 1 September this year. It was especially the reduction in bonuses that contributed to this. The growth in wages is also moderate for administrative and support service activities, and the average earnings increased by 1.8 per cent during the same period. In professional, scientific and technical services, the average earnings grew by 4.1 per cent, which is more on the level of what we expect for the rest of the economy. We estimate that annual salaries will increase by 4.3 per cent this year.

Parts of the manufacturing industries face a tight labour market and can increase wages in order to attract competent labour. But despite a fall in production and reductions in staff, there are signs that growth in wages has also remained well up in other parts of manufacturing during the three first quarters of the year. Among other things, basic monthly salaries grew by 6.2 per cent in manufacturing of textile, clothes and leather in the third quarter in relation to the same quarter the year before despite the fact that employment has fallen over a long period of time. In periods of extensive changes in the composition of the labour, the development in wage growth can be affected by

low-paid labour disappearing, while persons who have been employed for a long time and highly educated workers remain in the company. As a result, the growth in average manufacturing wages can become higher than what follows from the wage agreement and other agreed wage increases in isolation.

Before the summer, Stortinget decided to implement the directive regarding temporary and agency work. The decision comes into force on 1 January 2013, and entails among other things that employees who are hired out from an agency are entitled to the same wages as this person would have received if instead he or she were employed by the company to do the same work. This will contribute to increased wage costs for the agencies hiring out labour, but the effect is regarded by the Government as little. Prior to the decision, FAFO prepared a report which reviewed the effects of introducing the temporary and agency work directive more closely. The report points out that there are several mechanisms in wage setting which serve to level out the differences between temporary labour and employees in the hiring activities, and that the equal treatment principle is in practice well on the way to already being implemented.

In order to avoid liquidation in November, the management of SAS came to an agreement with the employees regarding a rescue package which amongst other things included heavy cuts in wages and longer working hours. Annual earnings in the national accounts in national accounts is defined as the wage an employee normally will receive during a calendar year if the employee concerned works full-time, has not been absent, and does not work overtime. Increases in agreed working hours therefore do not affect the growth in annual wages, for which we make prognoses. On the other hand, a reduction in wages affects the growth in annual earnings directly.

By itself, the wage reduction in SAS is not enough to change our estimates for overall growth in annual earnings for the following years. Neither do we believe that such negotiated cuts in wages will be particularly widespread in the future. The danger of further close-downs in Norwegian manufacturing is present, however, and may have a moderating effect on wage growth in other firms looking ahead.

The national accounts for 2010 and 2011 were revised in connection with the publication of QNA. As a result, the wage share in manufacturing was adjusted downwards to a considerably lower level than previously estimated. Our prognoses also imply reduced wage share in the future and, seen separately, point to a higher wage growth. However, there are large variations between the development in the engineering industry and other industries (see Box 2). While the wage share in the engineering industry has fallen since 2000, the wage share in the remaining manufacturing industries is now higher than before the financial crisis. Our projections



## Box 2. Two-part division in manufacturing is clear in the wage shares

In Norway it is a tradition that manufacturing competitiveness determines the norm for the wage settlements. Manufacturing competitiveness depends on both on the product price and on the development in productivity as well as a range of costs, including wages, capital, energy and transport costs. Wage cost as a share of factor income, i.e. the wage share, is affected by these factors. It is usual to assume that maintenance of the manufacturing competitiveness entails that the wage shares do not grow over time.

Manufacturing competitiveness is assumed to be maintained if contractual areas with a large element of activities exposed to competition bargain first ("front sector") during the national wage settlements. The wage growth in the front sector is perceived as the norm for other negotiation areas. With industry-level settlements, the so-called engineering agreement forms the central part of the front sector, while in the national settlements there is a broader LO – NHO area. It is worth noting that far more than those who are in the front sector are exposed to competition from abroad.

The figure shows the wage share for the manufacturing sector (excluding refineries) together with the wage shares for different industries from 1990 to 2015. The figure shows that the wage share in the manufacturing sector fluctuates around an average level of about 80 per cent up to 2011. This is in line with our modelling of the wage rates, where the wage growth adjusts so that the wage share is stable over time. If the wage share is low, this implies a higher wage growth in the next period and visa versa. Increased income in manufacturing due to increased productivity and favourable product prices, contributed to reduce the wage share for the manufacturing sectors from almost 80 per cent in 2002 to 73 per cent in 2006. In isolation, this profitability improvement contributed to increase wage growth.

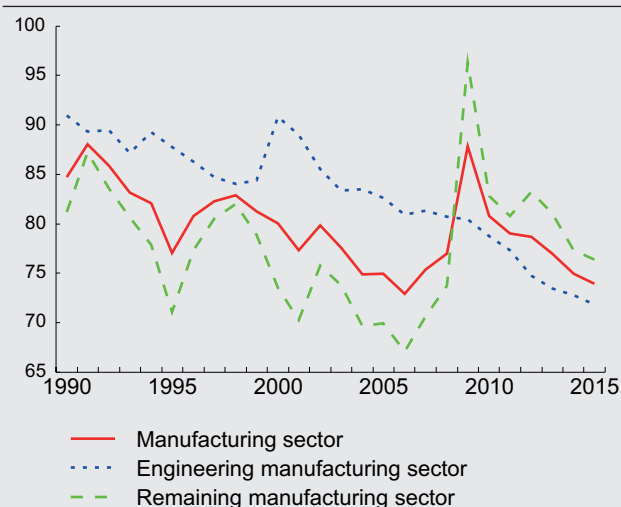
The financial crisis reduced value added in the manufacturing sector, both due to reduced product prices and substantially weaker demand. Employment was nearly unchanged and productivity fell considerably. In spite of that the wage growth was reduced by 50 per cent from 2008 to 2010, it was not enough to prevent the wage share from increasing considerably. In one year, the wage costs' share of the factor income increased by 11 percentage points, to 88 per cent in 2009. The wage share was then at a high level, also in a historical context. Since 2009 the share has been reversed to about 80 per cent in 2011, in accordance with the historical average.

The figure also illustrates a two-part division of the profitability in the manufacturing sector. The figure shows two separate wage shares within the manufacturing sector, one for industries which are mainly covered by the engineering agreement, to which we refer as the engineering industry, and one for the remaining manufacturing sector. In the remaining manufacturing sector the wage share has fluctuated considerably and more than for the manufacturing sector as a whole. This is among other things due to the development of raw materials-based industries where the profitability is closely connected to prices which vary a

lot. During the financial crisis, the wage share for this sector increased to almost 100 per cent, but has been reduced afterwards. This is partly due to a re-organisation that have increased productivity and partly due to a favourable price development. Contrary to the rest of the manufacturing sector, the engineering industry had no noticeable increase in the wage share, either during or in the aftermath of the financial crisis. This must be seen in context with high activity in the petroleum industry which stimulates activity and profitability in a considerable part of the engineering industry. Up to the financial crisis, the engineering industry had consecutively higher wage shares than other industries. This pattern has now been broken, and the wage share in other industries is now higher. This is a new feature when one looks at the wage shares from an historical perspective.

Our projections indicate that the economic recovery will contribute to reduce all wage shares from now on, so that in 2015 they are down to the low levels before the financial crisis for the manufacturing sector in general. The fall in wage shares are due to, amongst other things, to that the remaining manufacturing sector are expected to experience increased income in the projection period, which is due to expected increase in prices for raw materials and higher productivity growth, in particularly in the raw materials-based industries. Productivity increases are expected to come from increased investments, albeit from a low level, and considerable reorganization. It is also expected that the engineering industry will have good profitability during the projection period. However, the composition shows that the difference in wage shares between the engineering industry and the remaining manufacturing sector is maintained. The low wage shares in the engineering industry indicate good profitability during the whole of the projection period, while the remaining manufacturing sector has a somewhat different profitability development. This indicates a clear two-part division of the manufacturing sector also in the future.

**Wage shares in the manufacturing sector and distributed between the engineering and remaining manufacturing sector (excluded refineries). Per cent**



Source: Statistics Norway.

imply that the manufacturing industries will continue to be divided in the next few years. If our projections hold true, the wage share will continue to drop for the remainder of the projection period.

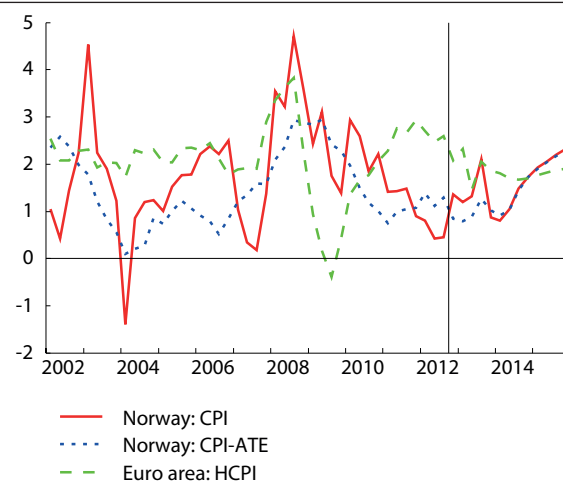
Looking ahead, traditional Norwegian export will develop weakly particularly in 2013, with a negative price development and very low turnover. Traditionally, the wage growth in years with interim settlement is somewhat lower, and overall the growth in annual wages in 2013 is reduced. Thereafter, Norwegian export-related manufacturing will pick up slowly and the labour productivity will be higher than today, improving profitability for the manufacturing sector. This contributes to higher wage growth in 2014 and 2015. Increased inflation also contributes to increase wage inflation. On the other hand, unemployment increases somewhat in the future. Overall we estimate the growth in annual earnings to 4.7 per cent in 2015, but the real wage growth is considerably lower. Real wage growth may then be reduced from 3.5 per cent this year to 2.5-3 per cent henceforth.

### Continued low inflation

Even with solid increase in wages the past years, the underlying inflation rate continues to be low and stable. The 12-month rise in the consumer price index adjusted for public charges and without energy (CPI-ATE) was 1.1 per cent in October. For the last three months, CPI-ATE has been somewhat lower than the average inflation to date this year. For the year as a whole, it looks as though CPI-ATE will rise by 1.2 per cent, while low electricity prices contribute to lower rise in the overall consumer price index (CPI) and is now estimated to increase 0.8 per cent for 2012.

The underlying price increase is governed to a large degree by the development in wages, currency exchange and the international price development of imported goods. A strong krone and productivity growth in production and distribution of goods and services contributes to curb the effect of increasing wages. Measured by the import-weighted exchange rate, the krone has steadily strengthened after the weakening which occurred during and after the financial crisis. It takes time before changes in the currency exchange have a full impact on prices for the consumers. The strengthening of the krone which started in 2009 was a contributing factor to the fall in the rate of inflation up to the summer of 2010. Since then, CPI-ATE has been marked by low and partly negative price inflation for imported consumer goods. The sub-index in CPI-ATE for the prices on imported consumer goods fell in October by 1.2 per cent from the same month the previous year. As an annual average we assume that the price fall for this group of goods will be 0.6 per cent in 2012. With a weight of 26 per cent in CPI-ATE the price development of imported goods pulls the rate of inflation down significantly.

Figure 15. Consumer price indices. Percentage growth from the same quarter previous year



Source: Statistics Norway.

The price for the group of goods such as audiovisual equipment and tele equipment has for a number of years fallen far more than that which can be traced back to changes in the currency exchange. This can be explained by extensive technical progress within the electronics industry and frequent introduction of new equipment with significantly better characteristics than obsolete models, without increased prices. We see the same development with tele services where the capacity of the external line network and other communications networks are upgraded without any price increases for the consumers. Prices on tele services have been in continuous fall since 1990.

According to the national accounts, approximately 40 per cent of households' total goods consumption consists of trade gross margin and transport margins when indirect taxes are deducted from the consumer's purchase prices. Margins in the intermediate stages accrue both for home-produced goods on the way from the factory to the consumer, and for imported goods where the product prices are initially measured at the border. Within wholesale and retail trade the element of foreign labour is relatively large and the wage development in the industry has been a little weaker than the growth in manufacturing wages after foreign labour increased extensively in 2004. Low growth in wages costs per hour as well as high growth in productivity in the distributive trades, has also contributed to low price inflation on Norwegian-produced goods and services. Increased competition from foreign actors within logistics and transport, where a large part of the imports to Norway are now undertaken by truck from low-cost countries, pushes the margins down for goods transport. Within distributive trades and transport, automated logistics solutions are taken into use in an increasing degree to make the flow of goods more efficient, as well as simplify the routines for purchase and ordering. This contributes to increasing the productivity. These

features will probably also be of significance for the general growth in prices in the coming years.

The increase in trade on the Internet and use of the Internet in general will probably also promote competitiveness for many products. The fact that by just pressing a few keys one can compare prices for relatively homogenous products and easily obtain offers for different services, limits the possibilities for single actors to unilaterally increase the margins without risking loss of market shares.

Price increases on food have been moderate throughout the whole year, especially when one also takes into account that value added tax on food was changed from 14 to 15 per cent at the beginning of the year. The Agricultural Settlement sets limits for the price development for food, and was accepted with moderate increases in target prices. In the fiscal budget the Government notified a change from a krone-toll to per cent toll on beef and lamb in addition to some types of cheese. The Norwegian Agricultural Authority has held auctions for next year's toll-free quota for most agricultural products. The transfer to per cent toll did not lead to any price jump on the toll-free quotas for these products, and this indicates that the change will have a limited significance for prices in Norwegian shops in the short term. We expect that the moderate inflation in food prices will continue into 2013 in line with this year's Agricultural Settlement, and that the underlying inflation for this group of goods will increase in line with the general inflation in future years.

Consumer groups which pull the CPI increase up, are found in different forms of service industries in particular. Actual and imputed rent increased by 2.0 and 1.8 per cent respectively from October 2011 to October 2012. The inflation rates for these groups have been relatively stable throughout the year. We expect that the price of housing rental will increase in line with the increase in the general price inflation in future years.

During the last few months, an increasing rate of inflation has been observed for some types of transport services. This applies to passenger transport by air, taxi and boat, and also to postal services.

For air services in particular, an even more intensified competition situation points to a more moderate price development in the future. For Norwegian-produced services with a large element of labour, the development in prices is more connected to wages development. For this type of services, the possibilities for technical progress in production have been limited.

Low electricity prices have contributed to that the 12-month-increase in the CPI has been markedly below CPI-ATE during this year. The resource situation in the energy market still indicates low prices, but the prices

on the forward contracts in the Nord Pool area for the first and second quarter next year indicates that electricity prices next year will increase a little in relation to this year. We expect an increase in electricity prices including grid rental of 10 per cent next year, and that thereafter the prices will develop in line with the general price increase. There is as usual great uncertainty concerning these estimates. Despite an expected fall in oil prices, the estimate of the development in electricity prices for next year lead to that the CPI increase will be somewhat higher than the inflation in CPI -JAE in 2013.

We expect that weak international growth prospects, combine with a higher price increase abroad than in Norway, will contribute to strengthen the import-weighted krone exchange rate by a little more than 3 per cent next year. With this development, we see a further fall in prices on imported goods and services, and an even lower underlying price increase in 2013 than the preceding years. Thereafter, the higher wage inflation in Norway will increase inflation relatively more at home than abroad. Together with an expected fall in oil prices, this will result in a weakening of the the import-weighted krone exchange rate. Then a somewhat weaker krone value will contribute to that the negative price impetus from imports will be weaker and change signs after a time. Increased import prices affect the cost development in all industries through purchase of intermediate consumption and investment goods, and also contribute to higher producer prices inland. With the estimates we have used as the basis for the development in wage costs per hour, labour productivity and importation prices, the inflation in CPI-ATE according to our calculations will be 1 per cent as an annual average in 2013. Thereafter, increased import prices in particular contribute to gradually stronger indirect and direct cost impetus which results in increased inflation in CPI-ATE. The inflation in CPI-ATE is expected to be 1.3 and 2.1 per cent in 2014 and 2015 respectively. We have assumed as the basis that the price inflation on energy goods overall will be near the underlying price increases in 2014 and 2015, so that the inflation in the CPI and CPI-ATE will be almost equal for these years. Higher electricity prices next year will contribute to that the increase in CPI is estimated to be 1.4 per cent for 2013. If this is the case this will be 0.4 percentage points above the underlying price inflation.

Table 4. National accounts: Final expenditure and gross domestic product. At constant 2010 prices. Million kroner

	Unadjusted		Seasonally adjusted						
	2010	2011	11.1	11.2	11.3	11.4	12.1	12.2	12.3
Final consumption expenditure of households and NPISHs	1 089 953	1 117 099	277 436	278 630	280 140	282 815	285 298	287 257	289 615
Household final consumption expenditure	1 040 627	1 066 563	264 814	266 087	267 479	270 114	272 405	274 530	276 931
Goods	532 385	539 517	134 682	134 635	135 509	136 385	137 163	138 687	138 977
Services	474 046	485 440	120 271	121 026	121 680	122 604	123 521	124 134	125 378
Direct purchases abroad by resident households	62 645	70 184	16 813	17 533	17 610	18 312	19 044	19 091	19 678
Direct purchases by non-residents	-28 449	-28 577	-6 953	-7 107	-7 320	-7 187	-7 324	-7 382	-7 103
Final consumption expenditure of NPISHs	49 326	50 535	12 622	12 543	12 660	12 701	12 893	12 727	12 684
Final consumption expenditure of general government	558 469	568 702	139 935	142 146	143 511	143 461	143 335	145 101	145 403
Final consumption expenditure of central government	284 910	287 460	70 736	71 786	72 480	72 586	72 119	73 489	73 738
Central government, civilian	248 074	250 557	61 785	62 603	63 120	63 179	62 842	63 961	64 118
Central government, defence	36 836	36 903	8 952	9 182	9 360	9 406	9 278	9 527	9 620
Final consumption expenditure of local government	273 559	281 241	69 199	70 360	71 031	70 875	71 216	71 612	71 665
Gross fixed capital formation	481 985	518 409	129 331	122 970	131 722	133 998	135 695	137 007	138 283
Extraction and transport via pipelines	124 166	141 612	33 464	33 981	37 182	37 027	38 372	40 325	39 594
Service activities incidental to extraction	1 318	-4 013	-9	-4 264	173	81	233	235	718
Ocean transport	16 753	12 190	3 534	2 607	2 718	3 392	4 003	3 294	2 473
Mainland Norway	339 748	368 621	92 388	90 850	91 579	93 313	93 175	93 320	95 404
Mainland Norway excluding general government	258 219	285 297	69 594	71 960	71 215	72 440	72 338	73 337	74 851
Industries	160 246	165 914	41 233	41 700	41 011	41 911	42 171	42 056	41 442
Manufacturing and mining	20 288	21 205	5 111	5 048	5 457	5 580	5 482	5 663	4 960
Production of other goods	38 944	42 230	10 282	10 615	10 526	10 741	11 125	10 507	10 045
Services	101 014	102 479	25 840	26 037	25 027	25 590	25 564	25 886	26 437
Dwellings (households)	97 973	119 384	28 361	30 259	30 204	30 530	30 167	31 282	33 409
General government	81 529	83 324	22 794	18 891	20 364	20 872	20 837	19 983	20 553
Changes in stocks and statistical discrepancies	110 207	113 523	34 139	25 661	20 904	33 802	26 944	29 866	30 740
Gross capital formation	592 192	631 932	163 470	148 632	152 626	167 800	162 639	166 874	169 023
Final domestic use of goods and services	2 240 614	2 317 733	580 841	569 408	576 277	594 076	591 272	599 232	604 042
Final demand from Mainland Norway	1 988 170	2 054 421	509 759	511 626	515 230	519 589	521 808	525 678	530 422
Final demand from general government	639 998	652 025	162 729	161 036	163 875	164 333	164 172	165 084	165 956
Total exports	1 029 969	1 011 430	251 175	249 220	259 888	251 189	260 705	261 976	253 861
Traditional goods	299 222	299 237	72 580	76 350	76 257	73 891	76 444	76 058	76 410
Crude oil and natural gas	471 179	441 961	113 446	104 949	116 640	107 283	114 933	116 291	109 522
Ships, oil platforms and planes	8 626	13 768	1 532	6 598	2 990	2 666	2 050	3 147	2 007
Services	250 942	256 465	63 618	61 322	64 001	67 350	67 277	66 481	65 922
Total use of goods and services	3 270 583	3 329 163	832 016	818 627	836 164	845 266	851 977	861 208	857 903
Total imports	726 317	753 912	196 673	180 229	184 100	194 004	191 545	194 193	196 313
Traditional goods	435 333	451 068	113 877	111 209	111 296	114 437	115 056	113 868	116 048
Crude oil and natural gas	11 893	11 964	5 432	2 370	2 643	2 724	3 236	4 394	2 714
Ships, oil platforms and planes	29 987	36 025	16 986	6 026	6 768	6 348	6 075	6 598	5 725
Services	249 104	254 855	60 379	60 624	63 393	70 495	67 178	69 334	71 826
Gross domestic product (market prices)	2 544 266	2 575 251	635 343	638 398	652 064	651 262	660 432	667 015	661 590
Gross domestic product Mainland Norway (market prices)	1 987 362	2 036 566	500 764	508 322	513 474	515 996	520 855	524 898	528 470
Petroleum activities and ocean transport	556 904	538 685	134 579	130 076	138 591	135 266	139 577	142 117	133 120
Mainland Norway (basic prices)	1 703 716	1 747 295	429 012	436 231	440 827	442 823	447 740	450 850	453 190
Mainland Norway excluding general government	1 303 289	1 337 315	327 766	333 743	337 823	339 409	344 032	347 049	348 997
Manufacturing and mining	183 527	187 309	46 404	46 763	47 138	47 143	47 430	47 403	48 689
Production of other goods	219 184	224 074	53 401	55 432	57 993	58 199	60 584	62 445	61 137
Services incl. dwellings (households)	900 578	925 932	227 962	231 548	232 692	234 067	236 018	237 201	239 171
General government	400 427	409 980	101 246	102 488	103 004	103 413	103 708	103 801	104 193
Taxes and subsidies products	283 646	289 271	71 752	72 091	72 647	73 173	73 115	74 048	75 280

Source: Statistics Norway.



Table 5. **National accounts: Final expenditure and gross domestic product. At constant 2010 prices. Percentage change from the previous period**

	Unadjusted		Seasonally adjusted						
	2010	2011	11.1	11.2	11.3	11.4	12.1	12.2	12.3
Final consumption expenditure of households and NPISHs	3.8	2.5	0.3	0.4	0.5	1.0	0.9	0.7	0.8
Household final consumption expenditure	4.0	2.5	0.2	0.5	0.5	1.0	0.8	0.8	0.9
Goods	5.2	1.3	-1.0	0.0	0.6	0.6	0.6	1.1	0.2
Services	1.8	2.4	0.9	0.6	0.5	0.8	0.7	0.5	1.0
Direct purchases abroad by resident households	12.5	12.0	3.4	4.3	0.4	4.0	4.0	0.2	3.1
Direct purchases by non-residents	6.1	..	-3.7	2.2	3.0	-1.8	1.9	0.8	-3.8
Final consumption expenditure of NPISHs	..	2.5	1.9	-0.6	0.9	0.3	1.5	-1.3	-0.3
Final consumption expenditure of general government	1.3	1.8	0.7	1.6	1.0	0.0	-0.1	1.2	0.2
Final consumption expenditure of central government	..	..	0.3	1.5	1.0	0.1	-0.6	1.9	0.3
Central government, civilian	..	1.0	0.4	1.3	0.8	0.1	-0.5	1.8	0.2
Central government, defence	..	..	-0.6	2.6	1.9	0.5	-1.4	2.7	1.0
Final consumption expenditure of local government	3.0	2.8	1.1	1.7	1.0	-0.2	0.5	0.6	0.1
Gross fixed capital formation	..	7.6	3.2	-4.9	7.1	1.7	1.3	1.0	0.9
Extraction and transport via pipelines	..	14.1	5.0	1.5	9.4	-0.4	3.6	5.1	-1.8
Service activities incidental to extraction	..	..	-102.1	..	-104.1	-53.1	185.7	1.0	205.9
Ocean transport	..	..	-8.3	-26.2	4.2	24.8	18.0	-17.7	-24.9
Mainland Norway	..	8.5	3.9	-1.7	0.8	1.9	-0.1	0.2	2.2
Mainland Norway excluding general government	..	10.5	3.0	3.4	-1.0	1.7	-0.1	1.4	2.1
Industries	..	3.5	-1.4	1.1	-1.7	2.2	0.6	-0.3	-1.5
Manufacturing and mining	..	4.5	0.0	-1.2	8.1	2.2	-1.8	3.3	-12.4
Production of other goods	3.3	8.4	0.5	3.2	-0.8	2.0	3.6	-5.6	-4.4
Services	..	1.5	-2.5	0.8	-3.9	2.2	-0.1	1.3	2.1
Dwellings (households)	..	21.9	10.0	6.7	-0.2	1.1	-1.2	3.7	6.8
General government	..	2.2	7.0	-17.1	7.8	2.5	-0.2	-4.1	2.9
Changes in stocks and statistical discrepancies	423.6	3.0	33.3	-24.8	-18.5	61.7	-20.3	10.8	2.9
Gross capital formation	4.1	6.7	8.3	-9.1	2.7	9.9	-3.1	2.6	1.3
Final domestic use of goods and services	3.2	3.4	2.5	-2.0	1.2	3.1	-0.5	1.3	0.8
Final demand from Mainland Norway	1.5	3.3	1.0	0.4	0.7	0.8	0.4	0.7	0.9
Final demand from general government	..	1.9	1.5	-1.0	1.8	0.3	-0.1	0.6	0.5
Total exports	..	..	-1.6	-0.8	4.3	-3.3	3.8	0.5	-3.1
Traditional goods	3.4	..	-1.8	5.2	-0.1	-3.1	3.5	-0.5	0.5
Crude oil and natural gas	..	..	-0.2	-7.5	11.1	-8.0	7.1	1.2	-5.8
Ships, oil platforms and planes	..	59.6	-15.9	330.8	-54.7	-10.8	-23.1	53.5	-36.2
Services	12.1	2.2	-3.5	-3.6	4.4	5.2	-0.1	-1.2	-0.8
Total use of goods and services	2.3	1.8	1.2	-1.6	2.1	1.1	0.8	1.1	-0.4
Total imports	9.0	3.8	7.3	-8.4	2.1	5.4	-1.3	1.4	1.1
Traditional goods	9.1	3.6	2.0	-2.3	0.1	2.8	0.5	-1.0	1.9
Crude oil and natural gas	..	..	128.5	-56.4	11.5	3.1	18.8	35.8	-38.2
Ships, oil platforms and planes	..	20.1	170.1	-64.5	12.3	-6.2	-4.3	8.6	-13.2
Services	12.5	2.3	-4.2	0.4	4.6	11.2	-4.7	3.2	3.6
Gross domestic product (market prices)	..	1.2	-0.5	0.5	2.1	-0.1	1.4	1.0	-0.8
Gross domestic product Mainland Norway (market prices)	1.7	2.5	0.7	1.5	1.0	0.5	0.9	0.8	0.7
Petroleum activities and ocean transport	..	..	-4.8	-3.3	6.5	-2.4	3.2	1.8	-6.3
Mainland Norway (basic prices)	1.5	2.6	0.6	1.7	1.1	0.5	1.1	0.7	0.5
Mainland Norway excluding general government	1.6	2.6	0.3	1.8	1.2	0.5	1.4	0.9	0.6
Manufacturing and mining	2.4	2.1	0.1	0.8	0.8	0.0	0.6	-0.1	2.7
Production of other goods	..	2.2	-2.6	3.8	4.6	0.4	4.1	3.1	-2.1
Services incl. dwellings (households)	2.2	2.8	1.0	1.6	0.5	0.6	0.8	0.5	0.8
General government	..	2.4	1.6	1.2	0.5	0.4	0.3	0.1	0.4
Taxes and subsidies products	3.0	2.0	1.4	0.5	0.8	0.7	-0.1	1.3	1.7

Source: Statistics Norway.

Table 6. **National accounts: Final expenditure and gross domestic product. Price indices. 2010=100**

	Unadjusted		Seasonally adjusted						
	2010	2011	11.1	11.2	11.3	11.4	12.1	12.2	12.3
Final consumption expenditure of households and NPISHs	100.0	101.3	100.4	101.6	101.2	101.2	102.2	101.7	102.1
Final consumption expenditure of general government	100.0	103.9	103.1	103.2	103.9	105.4	106.0	107.0	108.3
Gross fixed capital formation	100.0	103.5	101.8	102.8	103.5	105.9	105.7	106.6	106.4
Mainland Norway	100.0	103.8	102.1	103.5	104.2	105.4	106.0	107.0	107.4
Final domestic use of goods and services	100.0	102.9	102.2	102.9	102.3	103.5	105.0	105.0	104.9
Final demand from Mainland Norway	100.0	102.5	101.4	102.4	102.5	103.1	103.9	104.1	104.7
Total exports	100.0	112.8	110.5	112.5	112.1	116.8	118.1	114.8	115.1
Traditional goods	100.0	105.7	107.1	107.1	105.1	104.7	103.0	101.6	100.4
Total use of goods and services	100.0	105.9	104.7	105.8	105.4	107.4	109.0	108.0	107.9
Total imports	100.0	102.9	103.3	103.2	102.1	103.7	103.4	104.1	103.2
Traditional goods	100.0	104.2	104.5	103.9	103.9	104.7	104.6	104.3	104.9
Gross domestic product (market prices)	100.0	106.8	105.1	106.6	106.3	108.5	110.6	109.1	109.3
Gross domestic product Mainland Norway (market prices)	100.0	102.6	101.9	102.7	102.7	102.8	103.6	104.1	104.9

Source: Statistics Norway.

Table 7. **National accounts: Final expenditure and gross domestic product. Price indices. Percentage change from previous period**

	Unadjusted		Seasonally adjusted						
	2010	2011	11.1	11.2	11.3	11.4	12.1	12.2	12.3
Final consumption expenditure of households and NPISHs	2.2	1.3	-0.1	1.2	-0.4	0.0	1.0	-0.5	0.4
Final consumption expenditure of general government	3.9	3.9	1.4	0.1	0.7	1.5	0.5	1.0	1.2
Gross fixed capital formation	1.6	3.5	0.8	1.0	0.6	2.4	-0.2	0.8	-0.2
Mainland Norway	1.9	3.8	0.7	1.4	0.6	1.2	0.6	0.9	0.4
Final domestic use of goods and services	3.9	2.9	0.8	0.7	-0.6	1.1	1.5	0.0	-0.1
Final demand from Mainland Norway	2.6	2.5	0.5	0.9	0.1	0.6	0.8	0.2	0.6
Total exports	7.5	12.8	3.5	1.8	-0.4	4.2	1.1	-2.8	0.2
Traditional goods	4.5	5.7	2.5	0.0	-1.9	-0.4	-1.6	-1.4	-1.1
Total use of goods and services	5.0	5.9	1.6	1.1	-0.5	2.0	1.5	-1.0	-0.1
Total imports	0.9	2.9	1.5	-0.1	-1.1	1.6	-0.3	0.6	-0.8
Traditional goods	0.1	4.2	2.4	-0.6	-0.1	0.7	-0.1	-0.3	0.7
Gross domestic product (market prices)	6.3	6.8	1.6	1.4	-0.3	2.1	1.9	-1.4	0.2
Gross domestic product Mainland Norway (market prices)	4.2	2.6	-0.2	0.9	0.0	0.1	0.8	0.5	0.7

Source: Statistics Norway.

Table 8. **Main economic indicators 2002-2015. Accounts and forecasts. Percentage change from previous year unless otherwise noted**

	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011*	Forecasts			
											2012	2013	2014	2015
<b>Demand and output</b>														
Consumption in households etc.	3.1	3.2	5.4	4.4	5.0	5.4	1.8	0.0	3.8	2.5	3.3	4.2	4.4	3.8
General government consumption	3.1	1.3	1.2	1.4	1.9	2.7	2.7	4.3	1.3	1.8	1.9	2.0	2.5	2.6
Gross fixed investment	-1.1	0.8	11.1	13.5	9.8	11.4	0.2	-7.5	-8.0	7.6	6.4	7.3	5.7	3.7
Extraction and transport via pipelines	-5.4	15.9	10.4	19.2	4.0	6.1	5.2	3.4	-9.5	14.1	11.7	7.8	4.2	1.8
mainland Norway	2.3	-2.9	10.6	12.2	10.5	13.3	-1.3	-13.2	-4.5	8.5	2.8	7.5	6.0	4.1
Industries	4.0	-11.2	10.6	18.6	15.2	21.9	0.8	-23.1	-5.1	3.5	1.2	7.2	5.4	3.0
Housing	-0.7	1.8	16.3	9.7	4.0	2.7	-9.0	-8.2	-1.6	21.9	8.0	10.0	6.8	4.3
General government	1.7	12.5	3.9	2.0	9.7	8.0	4.5	7.4	-6.8	2.2	-1.3	4.3	6.1	6.0
Demand from Mainland Norway <sup>1</sup>	3.0	1.6	5.1	4.9	5.2	6.3	1.4	-1.6	1.5	3.3	2.8	4.2	4.2	3.5
Stockbuilding <sup>2</sup>	0.3	-1.1	2.3	-0.1	1.1	-0.2	-0.1	-2.8	3.5	0.1	0.4	0.0	0.0	0.0
Exports	-0.3	-0.1	1.0	0.5	-0.8	1.4	0.1	-4.2	0.4	-1.8	1.9	2.3	1.2	1.5
Crude oil and natural gas	2.4	-0.8	-0.7	-5.0	-6.6	-2.4	-1.3	-2.0	-6.9	-6.2	1.3	3.7	0.4	-0.2
Traditional goods	0.7	3.7	3.6	5.3	6.1	9.2	3.5	-8.0	3.4	0.0	1.7	0.0	0.8	1.8
Imports	1.0	1.2	9.7	7.9	9.1	10.0	3.9	-12.5	9.0	3.8	4.0	6.4	4.6	3.9
Traditional goods	3.0	5.7	12.8	8.4	11.6	7.2	1.2	-12.9	9.1	3.6	2.3	6.1	5.1	4.3
Gross domestic product	1.5	1.0	4.0	2.6	2.3	2.7	0.1	-1.6	0.5	1.2	3.1	2.8	2.8	2.4
Mainland Norway	1.4	1.3	4.5	4.4	4.8	5.3	1.5	-1.6	1.7	2.5	3.3	2.9	3.5	3.4
Manufacturing	-0.7	2.9	5.1	3.9	2.6	3.5	2.9	-7.4	2.4	2.1	1.9	1.8	2.7	3.2
<b>Labour market</b>														
Total hours worked, Mainland Norway	-0.9	-2.1	1.9	1.5	3.3	4.3	3.5	-2.3	0.0	1.7	2.0	1.2	1.6	1.8
Employed persons	0.4	-1.2	0.5	1.3	3.5	4.1	3.3	-0.4	-0.5	1.3	2.2	1.9	1.4	1.5
Labor force <sup>3</sup>	0.7	-0.1	0.3	0.8	1.9	2.5	3.4	0.0	0.5	1.1	2.0	2.0	1.6	1.5
Participation rate (level) <sup>3</sup>	73.5	72.9	72.6	72.4	72.0	72.8	73.9	72.8	71.9	71.4	71.8	72.1	72.2	72.2
Unemployment rate (level) <sup>3</sup>	3.9	4.5	4.5	4.6	3.4	2.5	2.6	3.2	3.6	3.3	3.1	3.2	3.3	3.3
<b>Prices and wages</b>														
Wages per standard man-year	5.7	4.5	3.5	3.3	4.1	5.4	6.3	4.2	3.7	4.2	4.3	3.9	4.2	4.7
Consumer price index (CPI)	1.3	2.5	0.4	1.6	2.3	0.8	3.8	2.1	2.5	1.2	0.8	1.4	1.3	2.1
CPI-ATE4	2.3	1.1	0.3	1.0	0.8	1.4	2.6	2.6	1.4	0.9	1.2	1.0	1.3	2.1
Export prices, traditional goods	-9.2	-1.0	8.4	4.0	11.3	2.4	2.8	-6.0	4.5	5.7	-2.1	-2.0	1.7	2.9
Import prices, traditional goods	-7.1	0.0	2.6	0.3	4.0	3.7	3.9	-1.5	0.1	4.2	0.0	-3.1	0.8	2.7
Housing prices <sup>5</sup>	5.0	1.7	10.1	8.2	13.7	12.6	-1.1	1.9	8.3	8.0	6.8	6.8	6.2	5.9
<b>Income, interest rates and exchange rate</b>														
Household real income	8.9	4.6	3.3	7.8	-6.4	6.3	4.0	4.1	2.7	4.1	4.7	5.0	4.7	2.8
Household saving ratio (level)	8.4	9.0	7.0	9.8	-0.5	0.9	3.8	7.1	5.8	7.3	8.3	8.9	9.1	8.3
Money market rate (level)	6.9	4.1	2.0	2.2	3.1	5.0	6.2	2.5	2.5	2.9	2.2	1.9	2.5	3.6
Lending rate, credit loans(level) <sup>6</sup>	8.5	6.5	4.2	3.9	4.3	5.0	6.8	4.0	3.4	3.6	3.8	3.6	3.8	4.8
Real after-tax lending rate, banks (level)	4.8	2.2	2.5	1.3	0.7	2.9	1.1	0.7	0.1	1.3	2.0	1.2	1.5	1.3
Importweighted krone exchange rate (44 countries) <sup>7</sup>	-8.5	1.3	3.0	-3.9	0.7	-1.8	0.0	3.3	-3.7	-2.4	-1.2	-3.2	0.5	2.4
NOK per euro (level)	7.5	8.0	8.4	8.0	8.1	8.0	8.2	8.7	8.0	7.8	7.5	7.2	7.3	7.4
<b>Current account</b>														
Current balance (bill. NOK)	192.3	195.2	220.6	322.8	357.7	287.4	408.3	279.3	303.2	374.0	401.1	343.6	288.5	260.0
Current balance (per cent of GDP)	13.2	12.3	12.6	16.5	16.4	12.5	16.0	11.7	11.9	13.6	13.7	11.4	9.3	8.0
<b>International indicators</b>														
Exports markets indicator	2.3	2.7	7.7	7.0	9.6	5.6	1.2	-10.3	10.9	5.2	1.6	2.2	4.1	5.4
Consumer price index, euro-area	2.2	2.1	2.1	2.2	2.2	2.2	3.3	0.3	1.7	2.7	2.5	1.9	1.7	1.8
Money market rate, euro(level)	3.3	2.3	2.1	2.2	3.1	4.3	4.6	1.2	0.8	1.4	0.5	0.1	0.7	1.8
Crude oil price NOK (level) <sup>8</sup>	198	201	255	356	423	422	536	388	484	621	651	589	548	548

<sup>1</sup> Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in mainland Norway.

<sup>2</sup> Change in stockbuilding. Per cent of GDP.

<sup>3</sup> According to Statistics Norway's labour force survey(LFS). Break in data series in 2006.

<sup>4</sup> CPI adjusted for tax changes and excluding energy products.

<sup>5</sup> Break in data series in 2004.

<sup>6</sup> Yearly average. Lending rate, banks until 2006.

<sup>7</sup> Increasing index implies depreciation.

<sup>8</sup> Average spot price Brent Blend.

Source: Statistics Norway. The cut-off date for information was 4 December.